This past year was truly a year of opportunity for the Department. An opportunity to celebrate 30 years of existence; an opportunity to develop vital strategic plans to move America's transportation system into the 21st Century in a way that keeps our economy competitive, maintains our quality of life, and ensures the safe and efficient movement of people and goods; and, an opportunity to shape the proposed reauthorization legislation needed to support those strategic plans and goals. We seized the opportunity on all counts.



Our transportation system is about more than concrete, asphalt, and steel. It is the circulatory system of our economy. It provides opportunities for people, giving them mobility and choices. It carries our food to markets and our clothes to stores. It carries us to our jobs, our health care facilities, our places of worship, our homes. The statistics are enormous. Transportation contributes 11 percent (\$777 billion) of America's Gross Domestic Product. It carries over 4 trillion passenger miles of travel and 3.7 trillion ton miles of domestic freight generated by more than 260 million people, 6 million business establishments, and 87 thousand units of government.

To keep our system strong, the Clinton Administration increased investment in transportation infrastruture by more than 25 percent during its first term over the previous four years. Spending for safety improvements increased by 48 percent. We have opened over 110 miles of new rail transit service since 1993. Our airlines are carrying 25 percent more passengers than they did in 1993. And, the condition and performance of our Nation's key bridges and highways has improved. The Department continues to push forward in *Reinventing Government the common sense way.* Through streamlining, refocusing our efforts on our customers and on performance results, and using modern technologies, we are operating more efficiently and our work force is 10 percent smaller than it was in 1993.

While transportation success stories are many, the demands of a 21st Century national transportation system that come with America's growing and global commerce and the increasing need for mobility for Americans present even greater challenges. Our Strategic Plan for 1997-2002 addresses these needs. The Plan sets strategic goals for advancing Safety, Mobility, Economic Growth, Environmental Protection, and National Security. It arrays performance goals under each of these major themes and identifies measures to gauge progress. We will be working with vision and vigilance to carry out the Plan's mandates and lead the way to transportation excellence in the 21st Century.

On behalf of all our employees, I hope this Consolidated Financial Statement Report will give you a good picture of what we do and how we are financially positioned.

A MESSAGE FROM THE DEPUTY CHIEF FINANCIAL OFFICER

This report presents to the American public, the Congress, the Office of Management and Budget, and the transportation industry the Department of Transportation's (DOT) financial position for FY 1997, an overview of our major programs, and a brief description of how the public benefits from these programs.

It reflects the increasing attention DOT is giving to implementing the Government Performance and Results Act (GPRA). And, it describes how we continue to reform business processes, cut red tape, streamline, and promote innovative financing methods directly supporting National Performance Review and GPRA objectives. Our activities and programs are designed to ensure that America's transportation system meets the needs of the American people as we transit to the 21st Century. Highlights include:

- ✓ Increased emphasis on safety -- transportation-related fatalities have dropped significantly over the past several years.
- ✓ Over 2 million commercial vehicles were safety inspected in a one year period.
- ✓ Over 21,000 railroad inspections were performed in a six month period.
- ✓ Investment in transportation infrastructure is at a sufficient level to begin closing the gap between resource needs and availability.
- ✓ Innovative financing to leverage federal funds with private and non-federal public funds and innovative contracting are cutting government funded construction costs.
- √ 94 percent of all mariners in imminent danger in FY 1997 were saved by the U.S. Coast Guard.
- ✓ Total national emissions of most air pollutants from transportation sources have decreased over the past several years due to gains from technology.
- ✓ Approximately 65 percent of the national fixed-route bus active fleet is liftequipped for the disabled.
- ✓ Intelligent transportation systems, e.g., Real-Time Travel Information Service and Pre-Pass Electronic Clearance System for Trucks, etc. are reducing traffic congestion and improving safety.
- ✓ Cost savings of about \$24 million were achieved by using the Government Small Purchase Credit Card and by closing most cash imprest funds.

These and many more impacts on the public and on the transportation industry are described in this report. Readers who would like to know more about our programs and our organization may view our Internet Web Site at http://www.dot.gov.

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OUR VISION

A visionary and vigilant Department of Transportation leading the way to transportation excellence in the 21st Century.

DOT'S CONSOLIDATEDFINANCIAL STATEMENT presents its financial position, an overview of its major programs, and a brief description of how the public benefits from these programs.

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SECTION I DEPARTMENTAL OVERVIEW



WHY WE WERE ESTABLISHED

The U.S. Department of Transportation (DOT) was created in 1967 to develop transportation policies and programs that contribute to providing fast, safe, efficient, and convenient transportation at the lowest cost --- essentials to meet national objectives of economic growth and stability, security of the United States, and the efficient use and conservation of resources. Its creation brought under one umbrella a myriad of transportation missions and programs, some of which have been in existence since the 1700s.

As the Federal steward of the Nation's transportation system, DOT's responsibilities include ensuring the safety of all forms of transportation, protecting the interest of consumers, establishing international transportation agreements, conducting transportation planning and research for the future, and giving financial and technical assistance to cities and States to help them meet their local transportation needs.

How We Came Together

The Department's original enabling legislation established six Operating Administrations, including the Office of the Secretary. Other entities were later transferred in whole or were created

from parts of other Departments, or established under subsequent legislation or internal reorganization.

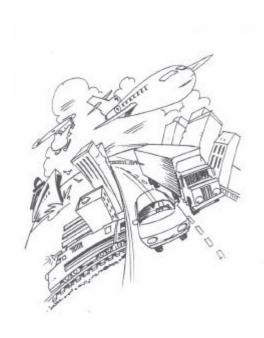
OPERATING ADMINISTRATION/ENTITY	WHERE THEY CAME FROM AND WHEN
Office of the Secretary	Enabling Legislation (EL)1967
Federal Aviation Administration	Former Federal Aviation AgencyEL 1967
Federal Highway Administration	Bureau of Public Roads - Department of Commerce EL 1967
U.S. Coast Guard	Treasury Department-EL 1967
Federal Railroad Administration	ICC and CommerceEL 1967
Saint Lawrence Seaway Development Corporation	Department of Commerce- EL 1967
Federal Transit Administration	Housing and Urban Development1968
National Highway Traffic Safety Administration	Federal Highway Administration1970
Research and Special Programs Administration	Internal DOT Reorganization 1977
Maritime Administration	Department of Commerce-1981
Bureau of Transportation Statistics	Intermodal Surface Transportation Efficiency Act of 1991Established in 1992
Transportation Administrative Service Center	Internal DOT Reorganization 1995
Surface Transportation Board	ICC Termination Act Established in 1996

THE SCOPE OF "THE SYSTEM"

Our Nation's transportation system is the largest in the world. It consists of about 4 million miles of public roads, almost 1.5 million miles of pipelines carrying natural gas and petroleum, over 5,000 public airports, 570 commercial harbors, 32,000 miles of navigable coastline, and 25,777 miles of inland waterways. Everyday our

roads carry over 6.6 billion vehicle miles of trucks and automobiles and over 2.5 billion ton-miles of goods. Everyday our rails carry more than 56,000 people; our waterways carry 2.2 billion ton-miles of freight; our transit systems move 10 million passengers; and our airlines carry more than 1.5 million passengers domestically and overseas.

Transportation and related industries employ 9.9 million people in the U.S.-slightly more than 7 percent of the total civilian labor force.



VISION

A visionary and vigilant Department of Transportation leading the way to transportation excellence in the 21st Century.

OUR MISSION & STRATEGIC GOALS

Mission

Serve the United States by ensuring a fast, safe, efficient, accessible and convenient transportation system that meets our vital national interests and enhances the quality of life of the American people, today and in the future.

STRATEGIC GOALS

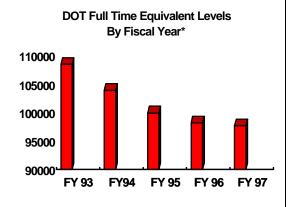
The Department's Strategic Plan for 1997 through 2002 outlines five strategic goals consistent with DOT's statutory authority and vital national interests and priorities.

- Safety promotes the public health and safety by working toward the elimination of transportation-related deaths, injuries, and property damage.
- Mobility shapes America's future by ensuring a transportation system that is accessible, integrated and efficient, and offers flexibility of choices.
- Economic Growth and Trade advances America's economic growth and competitiveness domestically and internationally through efficient and flexible transportation.

- Human and Natural Environment protects and enhances the community and the natural environment affected by transportation.
- National Security advances the Nation's vital security interests in support of national strategies such as the National Security Strategy and National Drug Control Strategy by ensuring that the transportation system is secure and available for defense mobility and that our borders are safe from illegal intrusion.

Our Operating Administrations

DOT's Operating Administrations and entities employ almost 100,000 civilian and military people located across the country and the world---working hard to create the best transportation system for America.



* Includes USCG military.

IMPROVING FINANCIAL MANAGEMENT IN DOT

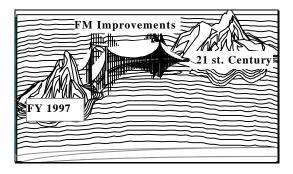
Using modern technologies and best practices, the DOT financial management community continues to upgrade and modernize its financial systems, processes, and information reporting, in support of the National Performance Review, Government-wide financial management goals and DOT's Strategic Plan. We are moving into a financial environment that more directly meets program needs. New systems efforts have been adopted and planned that extend financial activities and systems beyond the accounting office directly into program offices, capturing data only once--at the source--in an electronic environment that more efficiently supports program offices and managers. Actions have been taken to give our managers and other decision makers easier and quicker access to financial information. And, financial services activities such as processing employee travel and salary payments, buying supplies and services, and paying grantees and vendors are all being streamlined, electronically enabled, and otherwise made to work better and cheaper.

About \$24 million in administrative costs was saved in FY 1997 alone by using government small purchase credit cards instead of the paper oriented, process intensive purchase orders route.

Automated travel management systems have been implemented in full, or are in various stages of being implemented at ten Operating Administrations/entities, replacing paper and manual processing and approval of travel orders and vouchers with electronic processing and capturing data at the source. One

electronically feeds the departmental accounting system. Eighty three percent of all payments are being made by Electronic Fund Transfer. About \$200,000 in interest cost is being saved annually by closing 547 Imprest Funds and using alternative modern payment mechanisms. Management information reporting systems have been upgraded with utilities and software designed to provide users unfamiliar with formal Federal accounting and budgeting quick and easy access to much needed financial information.

These and many other common sense improvements completed and in process are published in DOT's FY 1997 Chief Financial Officer's Status Report and 5-Year Plan. That report and this one can be viewed at the DOT CFO Web Page on the Internet located at http://ostpxweb.dot.gov/budget.



MEASURING PERFORMANCE

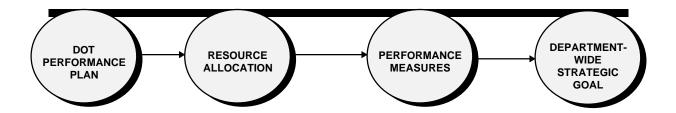
With the passage of the Government Performance and Results Act (GPRA) of 1993, government managers are required to measure the intended results of their programs, increase accountability and internal management, improve customer

service, and improve government effectiveness. GPRA requires agencies to create plans that identify their mission and strategic goals, set annual performance goals that are related to strategic goals, describe in general how goals will be achieved and the resources needed, and identify measures that will be used to gauge progress towards achieving the goals. Agencies must also report back to Congress annually on their performance. DOT's implementation of GPRA remains on track, with two important accomplishments in FY 1997. The DOT Strategic Plan, completed this year, addresses GPRA requirements for a strong planning document to guide policy and resource decisions. A critical foundation piece for performance based budgeting and management, the DOT Strategic Plan focuses resource allocation on the five Department-wide goals, mentioned throughout this document, each with measurable objectives. The document provides a single, cohesive plan that links and directs the efforts of the modal Operating Administrations, provides a framework for National Performance Review initiatives, and clearly communicates the purpose and objectives of the Department to the public. The Strategic Plan supports sound budgeting and financial management by integrating Department-wide policy analysis and planning well in advance of the start of the budget formulation process. DOT's Plan was rated the highest of the 24 largest Federal agencies by a Congressional Evaluation of Agencies' Strategic Plans in November, 1997 and the Plan's development team received Vice President Gore's Hammer Award. Complementary to the DOT Strategic

Plan has been the development of the Department Performance Plan. Modal Operating Administration budget submissions for FY 1999 integrated performance information into their justifications. The performance information developed in these budgets was integrated into a Department Performance Plan that is part of the FY 1999 budget submission to OMB. This Performance Plan links resource allocation to performance measures. which in turn link to the Departmentwide strategic goals. This Performance Plan represents the second key 1997 milestone in DOT's GPRA implementation, and provides the framework for linking financial accountability to program results.

Future efforts in this area will involve continually monitoring and improving the quality of data and measures, and refining the links between performance and resources. This plan was cited as a model by OMB.

While GPRA does not require performance measurement and reporting in FY 1997, DOT has completed several pilot projects in performance measurement and has been working hard to meet GPRA requirements ahead of schedule. This Consolidated Financial Statement includes discussion of FY 1997 performance information where they are available.

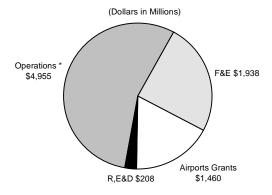


ederal Aviation Administration (FAA)

The FAA operates the Nation's air traffic control system and regulates aviation safety and security. As the leading public agency responsible for aviation, the FAA is dedicated to providing U.S. air travelers with an efficient, technically advanced airspace system that meets the highest attainable levels of safety and security.

RESOURCES

FY 1997 FAA BUDGET

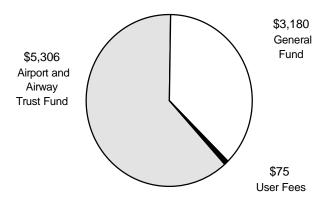


The FAA is funded through annual, multi-year, and no-year appropriations authorized by Congress and through the Airport Airway Trust Fund. The Airport and Airway Trust Fund provides a portion of the Operations appropriation and provides for all of the FAA's three capital programs:

(1) Facilities and Equipment (F&E);
(2) Research, Engineering and Development (R,E,&D); and (3) the Airport Improvement Program (AIP).

FY 1997 FAA Funding by Source

(Dollars in Millions)



The FAA maintains a well-trained, multi-disciplined workforce of almost 49,000 employees, concentrated in seven strategically focused lines of business and a small number of staff offices provide expertise to the agency as a whole.

FAA Employment As of September 30, 1997

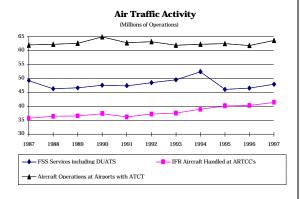
	Employee	% of Total
Air Traffic Services	35,788	74%
Regulation and Certification	5,819	12%
Civil Aviation Security	1,013	2%
Airports	484	1%
Research and Acquisitions	1,975	4%
Commercial Space Transportation	30	0%
Administration	3,214	6%
Staff Offices	<u>580</u>	<u>1%</u>
Total	48,903	100%

^{*} Includes Aviation User Fees

Major Programs

AIR TRAFFIC SERVICE

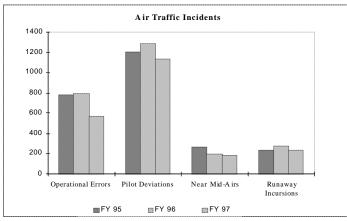
Air traffic controllers at airport towers and terminal area facilities guide airplanes that are landing, taking off, taxiing, or flying in the vicinity of the airport. Center controllers handle airplanes en route from one terminal area to another and flight service station specialists provide pilot briefings and in-flight communications. Air traffic services are available to both civil and military users 24-hours a day, 365 days a year.



(1997 data are preliminary)

Preliminary reports show that, in FY 1997, tower controllers at airports with FAA and contract air traffic control towers handled 63.4 million aircraft operations -- 1.6 million more than the previous year. Departures, overflights, and aircraft handled by enroute controllers rose to 41.4 million -- up 1.1 million. Preliminary results also show that operational errors declined 2 percent during the year.

FAA flight service stations also reported increased activity in the filing of flight plans, pilot briefs, aircraft contacted, and automated direct user access transactions. Preliminary reports show that these transactions totaled 47.9 million -- up 1.4 million from FY 1996 levels.



(1997 data are preliminary)

To support air traffic and flight services operations, airway systems specialists maintained over 35,000 items of equipment at peak efficiency and 99.85 percent availability. Over 600 major equipment improvements were placed in service during the year.

FAA's goal is to increase system safety by the year 2000 by decreasing the rates of operational errors and operational deviations by 10 percent from the 1994 levels.

REGULATION AND CERTIFICATION

FAA's safety regulatory responsibility encompasses three primary elements: (1) defining the rules and policies governing the design, manufacture, and operation of U.S. aircraft; (2) certificating and overseeing

commercial and cargo aircraft operators, aircraft and avionics manufacturers, maintenance organizations, pilot schools, and general aviation; and (3) monitoring compliance throughout the industry.

In its continuing effort to improve aviation safety, the FAA proposed two directives in March 1997 to further minimize the already small risk of accidents which might result from inadvertent movement of the Boeing 737 rudder. The directives are part of the FAA's on-going review of the Boeing 737's flight control system and augment design advances developed voluntarily by Boeing and announced by Vice President Gore in January 1997.

New procedures were also developed this past year, in partnership with industry, to use enhanced inspection methods and technology to detect potential defects in key high-energy rotating engine parts. To provide the flying public with the best available protection in the unlikely event of a fire, the FAA proposed a new rule in June 1997, requiring fire detection and suppression systems in all passenger aircraft cargo compartments that do not now have such safety features. The proposal, which is expected to become final in December 1997, reflects the agreement last year between the White House and the airlines to install these systems. And, to better identify the causes of aviation accidents and prevent their recurrence, the FAA issued a final rule in July 1997 ordering that more information be collected by digital flight data recorders.

CIVIL AVIATION SECURITY

FAA, in concert with local security, intelligence, and law enforcement agencies, continuously assesses threats against civil aviation and vulnerabilities at U.S. and international airports, develops countermeasures for dealing with existing threats and anticipates future ones. Air carriers are responsible for putting these safeguards into practice to protect passengers, personnel, and aircraft.

Airports are responsible for maintaining a secure ground environment and providing law enforcement support. The cooperation and vigilance of passengers and shippers is also an integral part of the system. Airports received deliveries of 54 explosive detection devices in January 1997. A separate contract was awarded on August 8, 1997, for at least 18 automated x-ray machines. Deliveries of these machines are expected to be completed by February 1998. The FAA also awarded a contract in May 1997 for 489 trace detection devices to screen baggage and electronic items for traces of explosives. All systems are expected to be delivered and operating by April 1998.



The voluntary canine program expanded from 87 teams in FY 1996 to 120 in FY 1997 and will increase to 187 in 1998, and approximately 250 teams by 1999. Purchase of additional dogs and training of handlers is well underway.

These measures are the result of the September 1996 initial report by the White House Commission on Aviation Safety and Security headed by Vice President Gore. Congress allocated \$144 million in the FAA's FY 1997 budget for these and other security measures. In other action, the FAA issued a proposed rule in May 1997 to require employment background investigations and criminal history checks for security screeners. Also in May, the FAA and the United Kingdom conducted joint tests to study the effects of an explosion in a widebody commercial aircraft equipped with both hardened and standard luggage containers. The dramatic test consisted of four simultaneous detonations within a pressurized B-747.

AIRPORTS

The FAA provides leadership in revitalizing and expanding the Nation's airports, working in

partnership with airport authorities, local units of government, metropolitan planning organizations, and states. The agency also certifies airports serving air carrier operations and inspects those airports for compliance with established safety standards. In FY 1997, FAA awarded 1,066 new grants valued at \$1.46 billion to improve and expand the Nation's airports.

During the past FY, the agency revised its system for rating and ranking projects eligible for AIP funds. The new system gives greater priority to capacity projects as well as to proposals submitted by small airports. Also, airport personnel published final application procedures for sponsor participation in the agency's newly established airport privatization program. The pilot program results from new legislation which allows the FAA to establish up to five airport privatization projects and to exempt the airport sponsor from certain Federal requirements to repay grants, return property acquired with Federal assistance, or to sell or lease the property. Stewart International Airport in Newburgh, New York, was the first to apply for the pilot program.

RESEARCH AND ACQUISITIONS

The FAA conducts research and invests in essential infrastructure to meet increasing demands for higher levels of system safety, security, capacity, and efficiency. Critical areas of research and development include hazardous weather, aircraft fire and catastrophic failure prevention, explosive detection and x-ray systems, and aviation human

factors. For air traffic control, the FAA is introducing new technologies such as satellite navigation using the global positioning system, data link communications, and advanced decision-support tools.

The FAA's modernization program continued at an aggressive pace, with over 5,800 hardware and software upgrades delivered during the FY. Aging air traffic control computers were replaced at five of the Nation's busiest air route traffic control centers. Controllers at the Chicago, Fort Worth, Washington, Cleveland, and New York centers now have a modern, more reliable computer system to generate radar displays and critical flight information. A more powerful replacement for all 20 centers is undergoing acceptance testing at the Seattle center and is expected to begin operating in June 1998. The final display system replacement is scheduled to arrive in Boston in May 1999. A contract to deploy an airport movement area safety system that will help prevent accidents on runways and taxiways was awarded in January 1997. The first full-scale development unit was delivered to Detroit in August 1997. Plans call for 40 of the enhanced systems to be installed at high activity airports by August 2000.

COMMERCIAL SPACE

The Office of the Associate
Administrator for Commercial Space
Transportation oversees safety and
regulates the growing commercial
space industry. It licenses
commercial space launches that take
place in the U.S. or are conducted by

U.S. citizens anywhere in the world. The office issued five launch licenses in FY 1997, including one to Lockheed Martin for the first commercial launch to the moon. In addition, the office issued 10 license amendments and monitored 14 commercial launches, including the first licensed launch from a foreign country. In March 1997, the FAA published a proposed rule which addresses licensing requirements for launching expendable vehicles from Federal launch sites.

ADMINISTRATION

FAA strives to make its operations more efficient and responsive by employing sound business practices, introducing advanced information technology, maintaining a highly skilled work force, and operating a model workplace.

In June 1997, the FAA released the results of a three-month review of the agency's one-year old system for acquiring goods and services. The review found that the acquisition reforms have cut the time to award contracts greater than \$100,000 by about half compared to the time needed under the previous regulations. The report also noted that the reforms have saved industry an estimated 30 to 40 percent over previous bid and proposal costs. Development continued on a new cost accounting system to monitor and control agency costs. At the end of FY 1997, a baseline system had been established for selected pilot organizations. Agency-wide implementation is scheduled for the end of FY 1998. The new system will

respond to recommendations made by the National Civil Aviation Review Commission in its report to U.S. Transportation Secretary Rodney Slater and the Congress on FAA's financial needs and funding options.

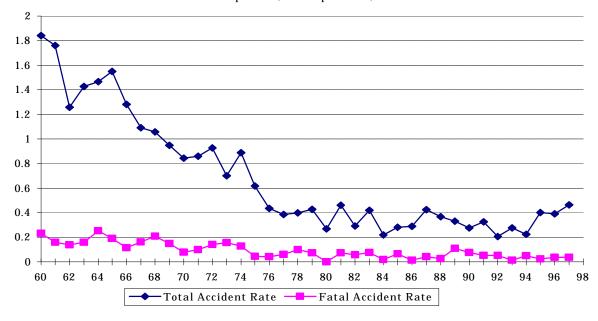
MEASURING PERFORMANCE

The FAA developed the FY 1999
Annual Performance Plan which identifies measurable performance goals that link to the FAA and the Department of Transportation strategic plan goals. The plan also links the FAA performance goals to the program and financing schedules in the FAA budget. The FAA performance plan augments the agency's previous methodology for

measuring performance, adds greater specificity to the process, and establishes a framework for implementing the Government Performance and Results Act of 1993.

The safety of the U.S. air transportation system is the FAA's most critical measure of performance. The White House Commission on Aviation Safety and Security, chaired by Vice President Gore, called for a reduction in the rate of fatal accidents by a factor of five within the next ten years. This goal has been incorporated into the FAA's FY 1999 Annual Performance Plan and is an applicable measure of perfomance in FY 1997.

U.S. Air Carriers
All Scheduled Service Operating Under 14 CFR 121
Accidents per 100,000 Departures, 1960-1997



PROGRAM GOALS, MEASURES, AND PERFORMANCES

Goal	Measure	Performance
Increase system safety by the year 2000.	Decrease the rates of operational errors and operational deviations by 10 percent from the 1994 levels.	In FY 1997, there were approximately 560 operational errors and 1134 pilot deviations reported.
By 2007, reduce the aviation fatal accident rate by 80 percent of baseline levels.	Change in the rate of aviation accidents.	In 1997, an estimated 628 million passengers flew on all scheduled commercial passenger service in the Nation's skies some 23 million more than the year before. Preliminary data show that, over the same period, the number of departures increased from 11.0 million to 11.1 million.
	Absolute number of aviation accidents.	Although the total number of accidents for all scheduled passenger service increased from 44 to 58 (including 8 fatal accidents in 1997 compared to 4 the previous year), the number of fatalities declined from 356 to 49.
		FY 1997 marked the first year of operation under a new rule that requires small carriers with 10 or more seats to adhere to the same rigorous safety standards as large carriers (14 CFR 121). In 1997 aircraft in this category carried an estimated 625 million passengers and experienced 3 fatal accidents which resulted in 3 fatalities.
		As part of its ongoing effort to ensure the safety of the travelling public, the FAA is focusing on those accident prevention opportunities that have the greatest potential to bring the greatest benefits. These include: effective safety partnerships; responsive and responsible oversight and rulemaking; the prevention of accidents caused by loss of control (controlled flight into terrain); advanced aviation research and technology that targets human factor issues, landing and approach accidents, runway incursions, icing and other hazardous weather; and enhanced security.

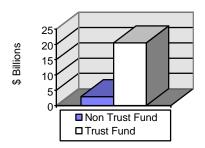


The mission of FHWA is to ensure the highest quality surface transportation system which promotes the Nation's economic vitality and quality of life of its people.

FHWA provide grants to States to help plan, build, maintain, and manage the Nation's highway system and bridges. It also regulates the interstate trucking industry for safety purposes; performs research and development of highway and trucking related issues; manages the Intelligent Vehicle/Highway System (IVHS) program; and operates the direct Federal highway construction program for Federal lands.

Most FHWA programs and projects are authorized by the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) and receive funds from the Highway Trust Fund (HTF).

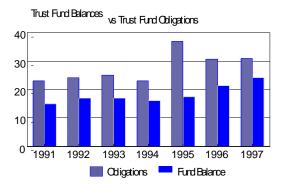
Outlays FY 1997



This chart shows the expenditures made by FHWA from funds provided by the HTF and funds provided from other sources outside of the HTF.

As the following chart shows, FHWA programs are generally "user pays"

programs, supported by the Federal gasoline/diesel tax and taxes on other motor vehicle-related products (e.g., tires, trucks, trailers), and truck use taxes. The money collected, roughly \$22 billion from gasoline and diesel taxes and \$3 billion in other taxes in FY 1997, is deposited into the HTF and dedicated to financing FHWA programs. About 13 percent of the revenue is dedicated to Federal transit programs. Obligations totaled \$30.8 billion at the end of FY 1997. The fund balance in the HTF is currently about \$24.2 billion.



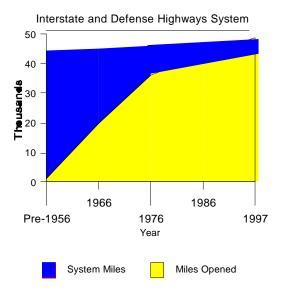


FEDERAL-AID HIGHWAY (FAH)
PROGRAM

The FAH program is the principal program for distributing Federal funds to the States to build and rehabilitate major highways and bridges. The States are reimbursed for eligible work after the work is performed. Federal-aid funding accounts for 99 percent of FHWA's budget authority.

This program provides for construction and preservation of the approximately 42,800 mile National System of

Interstate and Defense Highways, generally financed on a 90 percent Federal, 10 percent State basis. It also provides for the improvement of approximately 800,000 miles of other Federal-aid primary, secondary, and urban roads and streets, with financing generally on a 75 percent Federal to 25 percent State basis.



The FAH program also funds relocation assistance to those displaced by highway construction; improving access for the handicapped; encouraging the joint use and development of highway corridors; acquiring real property for right-of-ways; encouraging disadvantaged business enterprises to participate in highway construction; and preserving public parks and recreation lands, wildlife and waterfowl refuges, historic sites, and the natural beauty of the countryside along highways.

Funding is specified by category in ISTEA and other highway authorization Acts. The major programmatic categories are:

 National Highway System (NHS) funds construction or reconstruction on about 155,000 miles of the principal highways in the Nation.

The NHS was created by an Act of Congress in FY 1996. The 155,000 miles were designated in consultation with the States. In FY 1997, total obligations incurred by States for Federal-aid was \$16.7 billion and the apportionment of Federal-aid amounted to \$15.6 billion.

- Surface Transportation Program (STP) funds a flexible program that allows use of highway funds for a wide range of activities, including transit, safety and transportation enhancements which encompass numerous environmentally related activities, and bicycle-pedestrian accommodations.
- Interstate Construction (IC) funds completion of the Interstate
 Highway System. Currently,
 40 States have opened all designated Interstate mileage to traffic. Nationwide, 42,775 miles or 99.9 percent of the 42,795 mile system is open to traffic.
- Interstate Maintenance funds rehabilitating, resurfacing, restoring and reconstructing older segments of the Interstate Highway.
- Congestion Mitigation and Air
 Quality (CMAQ) Improvement Act
 funds environmental mitigation
 measures in the Clean Air Act non-attainment areas and STP activities
 in other areas. It is intended to
 reduce congestion and improve air

quality. Since 1992, the initial year authorized, to 1997, obligations have grown from \$340 million to over \$939 million annually. The CMAQ program offers States flexibility to fund a wide range of projects--the largest share thus far is funding transit projects (46.8 percent), followed by traffic flow (30.9 percent).

 Bridge Replacement and Rehabilitation (BRR) funds construction or repair on any bridge. The bridge inventory system has disclosed that for FY 1997, of all the bridges inventoried which are not on the Federal-Aid System, 23.6 percent are structurally deficient and 11.8 percent obsolete; on the National Highway System, 7.4 percent are structurally deficient and 16.4 percent are obsolete; and on all other Federal-Aid Systems, 12.9 percent are structurally deficient and 13.9 percent are obsolete.

To ensure that the percent of structurally deficient and obsolete bridges grows no larger, it is estimated that \$5.2 billion of maintenance would be required each year for the next 15 years.

Status of National Bridge Inventory

Bridge Status	Nati	onal High System	way	Oth	er Federal Highways		No	n Federa Highway	
	FY 1997	FY 1996	FY 1995	FY 1997	FY 1996	FY 1995	FY 1997	FY 1996	FY 1995
Bridges in Inventory:	127,527	127,736	127,263	171,424	170,956	168,593	282,889	283,170	285,278
Structurally Deficient: Number of Bridges Percent of Total	9,552 7.4	9,690 7.6	9,755 7.7	22,086 12.9	22,597 13.2	22,450 13.3	66,878 23.6	69,231 24.5	72,112 25.3
Functionally Obsolete: Number of Bridges Percent of Total	21,126 16.4	23,230 18.2	22,943 18.0	23,776 13.9	24,025 14.1	23,536 14.0	33,412 11.8	33,953 12.0	34,471 12.1

These six categories account for about 75 percent (\$91.2 billion) of the \$120.8 billion for highways authorized by ISTEA for 1992 through 1997. Much of the remainder of the authorized funding is for special interest projects (\$6.2 billion), special State allocations to balance the money flowing into and out of the HTF from each of the States (\$12.2 billion), and for several other miscellaneous categories.

FEDERAL LANDS HIGHWAY PROGRAM (FLHP)

The FLHP provides HTF financing of the construction and improvement of Indian reservation roads, parkways and park roads, and public lands highways, including forest highways and discretionary public land highway funding. FHWA provides the direct Federal resources to manage this program in conjunction with the Departments of Interior and Agriculture.

This program also provides direct construction management experience for persons in the FHWA engineering training program. In total, about \$2.6 billion was provided in ISTEA for this program. FY 1997 authorization was \$447 million.

In general, projects to be funded each year are selected by the Federal agency with jurisdiction over the Federal lands involved (i.e., the National Park Service with respect to parkways and park roads, the Forest Service for forest highways, and the Bureau of Indian Affairs/Tribal Governments for Indian reservation roads).

FLHP Roads	Total Mileage	Paved Mileage	Good 55%	Fair 35%	Poor 15%
Forest Highways	29,600	22,000	20	60	20
Indian Reservation Roads	25,000	5,000	34	37	29
Park Roads & Parkways	8,000	5,000	38	22	40

INTELLIGENT TRANSPORTATION SYSTEMS (ITS) PROGRAM

The ITS program is designed to research, develop, and operationally test advanced vehicle and highway systems; develop an automated highway system; and promote such technology as a means to increase the efficiency of the Nation's highways.

The program funds states, local governments, and private entities to develop and test new technologies, processes, procedures, and other activities that have the potential to enhance the efficiency of transportation infrastructure (e.g., increase the capacity of an existing highway by increasing the average speed) or improve operations of the vehicle using the infrastructure. ISTEA provided about \$645 million in contract authority for 1992 through 1997 (\$113 million in 1997). Additional funds are provided from the General Operating Expense of \$120.4 million in 1997.

Over the life of ISTEA the ITS program has tested and proved the viability of numerous technologies and applications. Over 83 operational tests, 28 of which are completed, are demonstrating the viability of first generation ITS technologies and services.



We are now seeing products and services refined by operational test programs--such as the Boston SmarTraveler's Real-time Travel Information Service or Help, Inc.'s Pre-Pass Electronic Clearance System for Trucks--become self sufficient and competitive in the market place.

MOTOR CARRIER SAFETY ASSISTANCE PROGRAM (MCSAP)

The MCSAP is designed to improve the safety of trucks and buses on the Nation's highways, and consistent with this goal, to reduce the number of accidents involving trucks. This is done through a combination of regulations on both the vehicle and driver, enforcement of such regulations, and grants to States for enforcement.

 <u>Regulations</u> cover the full gamut of vehicle-related (e.g., truck size and weight, vehicle systems--such as brakes, maintenance activities, etc.) and driver-related (e.g., hours of

- service, physical condition, drugs and alcohol, training, etc.) functions.
- Enforcement is performed with a combination of Federal and State personnel, including 300 Federal investigators. State enforcement is carried out by a range of State associated enforcement organizations, including State police, highway patrol, public service commissions, and public utility commissions--about 4,000 people.

FY 1996 Commercial Vehicle Safety Inspections				
Vehicle #Roadside #Placed Out-of- Inspections Out-of- Service Service Ratio				
All Vehicles	2,073,666	431,470	.211	
Non- Hazmat Vehicles	1,900,034	386,249	.234	
Hazmat Vehicles	139,150	27,369	.179	
Commercial Buses	34,482	3,852	.106	
Drivers	2,073,666	161,530	.078	

The MCSAP funds State enforcement of Federal truck and bus safety requirements or compatible State requirements. States may also use MCSAP funds for anti-drug, size and weight enforcement. Funding to the States entails both earmarked and apportioned (formula) contract authority authorizations (\$77.9 million authorized and \$77.7 million obligated for 1997).

Over 2 million different commercial motor vehicles have been inspected

for safety in FY 1997. These safety inspections resulted in over 21 percent being taken out of service and over 161,000 drivers being placed out of service.

STATE INFRASTRUCTURE BANKS (SIBS)

Congress established a Pilot Program for SIBs through Section 350 of the National Highway System (NHS) Designation Act of 1995. The section authorized the Department to enter into cooperative agreements with up to ten States for establishment of multi-state infrastructure banks for making loans and providing other assistance to public and private entities carrying out or proposing to carry out projects eligible for assistance under this section. The Department and Related Agencies Appropriation Act of 1997 authorized the Secretary of Transportation to enter into agreements with more than ten States. Thirty-nine States have been approved to participate in this pilot program. The newly authorized banks offer different methods for financing projects beyond the traditional grant process. The initial authorization of \$150 million was made available in 1997, and resulted in \$144 million in obligations for SIBs financing.

PROGRAM GOALS, MEASURES AND PERFORMANCES

Goal	Measure	Performance
"Tie America Together" through an effective intermodal transportation system.	Reduce the highway users' exposure to deficient bridges on the NHS as measured by the percentage of bridges with functional or structural deficiencies.	The number of structurally deficient bridges on the NHS declined from 1996 to 1997 by 138. The number of functionally obsolete bridges for the same period declined by 2,104.
Put people first in our transportation system by making it relevant and accessible to users.	Improve the quality and condition of the Bureau of Indian Affairs public roads as measured by the condition of paved roads, percent of unpaved roads that meet standards, the condition of bridges, and tribal satisfaction.	Unpaved roads that meet the standard continues to increase and improvements to bridges on reservations are being made.
Improve motor carrier safety.	Number of commercial motor vehicles inspected.	Over 2 million inspections, with 21 percent of the vehicles and 161,000 drivers taken out of service.

ederal Transit Administration (FTA)

The mission of FTA is to provide leadership, technical assistance and financial resources for safe, technologically advanced public transportation which enhances all citizens' mobility and accessibility; improve America's communities and natural environment; and strengthen the national economy. Transit investment improves the quality of life for over 80 million Americans who live in transit-intensive urbanized areas and the 30 million rural Americans who depend on transit for basic mobility. Ten million people rely on transit everyday to get to jobs, schools, stores, and healthcare facilities. Another 25 million use transit less frequently, but on a regular basis. In many cases, the elderly, the disabled, and the economically disadvantaged are the ones who most rely on transit for their basic mobility.



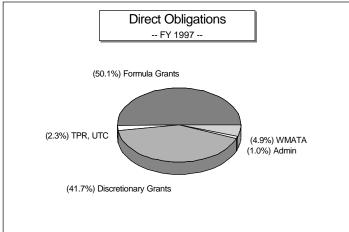
By providing basic mobility to millions of American workers, by contributing

to the revitalization of urban neighborhoods, and by saving America approximately \$15 billion a vear in the costs associated with traffic congestion, transit is proving itself to be a wise investment with multiple benefits to society. Investments in these areas support the national goals of promoting safety. ensuring mobility and accessibility, protecting the human and natural environment, and advancing economic growth and trade. The Federal Transit Program is funded from the general fund of the Treasury (i.e., general tax receipts) and the Mass Transit Account of the HTF. Thirteen percent of the total motor fuels revenue, \$3.3 billion, was deposited in the Mass Transit Account in FY 1997 and dedicated to funding the Federal transit programs. The cash balance in the Mass Transit Account is currently about \$9.8 billion. In FY 1997, 81 percent of the Federal transit program was funded from the HTF.

DISCRETIONARY AND FORMULA GRANTS

Through a variety of grant assistance programs, FTA provides funding to over 500 public transit operators in 316 urbanized areas, 1,200 transit systems serving rural areas, and 3,700 agencies that provide transit service to elderly and disabled persons. FTA also provides assistance for local transit authorities and State and local transit agencies

to plan, construct, and operate the Nation's mass transit systems. Grants are distributed either by statutory formulas set out in ISTEA, or by discretionary grants which are usually earmarked in the appropriation and authorization processes. Formula grants are apportioned by statutory formula based on population, population density and transit operational data.



In FY 1997, FTA obligated 4.2 billion in funds appropriated to FTA and \$559 million in Flexible Funds transferred from FHWA. Direct obligations included \$2.2 billion in Formula Grants, \$1.7 billion in Discretionary Grants, \$200 million for Washington Metro, \$95 million for Transit Planning and Research, and \$44 million for Administrative Expenses.

INVESTMENTS IN TRANSIT

Investments in transit infrastructure ensure transit succeeds in meeting all of its strategic goals. Analysis of the 1995 National Transit Database (NTD) shows that the national transit infrastructure consists of 135,564 total transit vehicles, 9,582 miles of rail track, 2,620 rail stations, and 1,165 maintenance facilities.

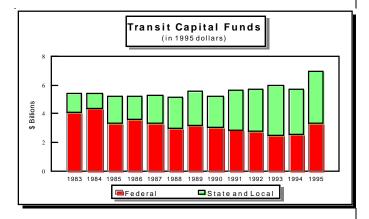
FTA estimates that an investment of \$9.7 billion with adjustments for inflation each year over the next 20 years will be required to maintain the Nation's transit facilities and

equipment in their current state of repair and to meet projected increases in travel demand. To improve the condition and performance will require an annual investment of \$14.2 billion. Funding at this level would increase the comfort and frequency of transit service. Most rush hour riders would be guaranteed seats and shorter waiting times for buses and trains.

In FY 1997, FTA's programs funded the following major types of capital investment: \$760 million for 7,000 new buses and vans, \$830 million for bus facilities and equipment, \$113 million for new and renovated rail cars, \$1.5 billion for "older" fixed-guideway repair and rehabilitation, and \$1.0 billion for the construction of new fixed-guideway systems.

In 1995, Federal funds accounted for 45 percent of total transit capital investment, with State and local sources providing the remainder.

The chart depicts total transit investments, in constant dollars, since 1983.

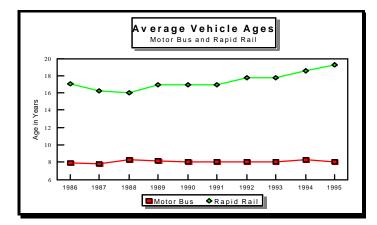


Measures of Condition

The average age of buses and railcars is being used as an interim measure. In general, bus and railcar fleets are beyond their economic lives because capital funding has been below that needed to maintain conditions and performance. A poorly maintained fleet impedes transit's ability to keep and attract new passengers. which is particularly important if transit is to keep up with urban area growth. Higher levels of funding in FY 1995 and beyond should show vehicle ages stabilizing, and probably declining, since it takes several years from the time Federal funds are appropriated until the new vehicles are put in service.

The following chart shows in 1995 the average ages of transit buses and rapid rail cars were 8.1 years and 19.3 years, respectively. Since there is a 2 to 4 year lag from the time an obligation is

made for a bus to its delivery to the transit operator, these figures indicate the increase in capital funding initiated in FY 1993 is beginning to bring down the average age of the bus fleet. Rail cars are replaced on a less consistent basis than buses due to the relative small size of the rapid rail fleet.



· Innovative Financing

During FY 1997, FTA continued its emphasis on developing innovative concepts to help improve transit infrastructure. Capitalization of State Infrastructure Banks (SIBs) exceeded \$106 million in funding from all sources, and 21 SIBs announced plans to establish at least one transit and highway account. In addition, FTA approved over \$1.2 billion in innovative leasing transactions that involved Federally supported vehicles and facilities. Transit systems realized cash benefits from these transactions valued at more than \$76.7 million. Since January 1994, FTA has approved a total of \$3.09 billion in such

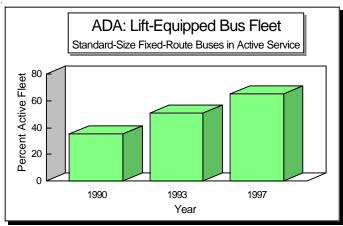
transactions, generating over \$198 million in benefits for transit systems nationwide.

MOBILITY AND ACCESSIBILITY

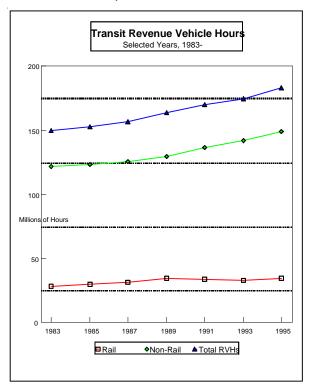
FTA's primary goal is to shape America's future by ensuring a transit system that is accessible, seamless with other modes, efficient and offers a viable transportation choice. Eighty million Americans live in transitintensive urban areas who benefit from transit. Among the Americans who use transit are the 32 million senior citizens who are most likely unable to drive automobiles. The 37 million Americans who live below the poverty line also rely on transit as their primary means of transportation. Nationally, only six percent of those on welfare own an automobile. Finally, transit is important to the 24 million Americans with disabilities. Many of these individuals are unable to drive a car and need access to a dependable transit system.

• Americans With Disabilities Act (ADA) is an important goal of FTA. FTA ensures that ADA requirements for accessibility of mass transit services and facilities are met. Since enactment of the ADA in 1990, FTA has been working to make public transit bus, rail and paratransit service accessible to persons with disabilities. One major goal in this effort is to make the national fixedroute bus system 100 percent liftor ramp-equipped.

Prior to the ADA's enactment in 1990, approximately 35 percent of the buses in the active fleet of over 50,000 transit vehicles were lift-equipped, and many of these did not work. By the end of 1997, seven years after enactment, the active fleet is approximately 65 percent lift-equipped.



The following chart shows a steady increase in revenue vehicle hours since 1983, which have grown at an annualized rate of 1.2 percent since 1993, and 1.9 percent since 1983.



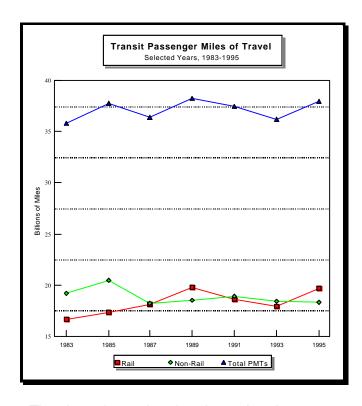
HUMAN AND NATURAL ENVIRONMENT

Transit's role in supporting the human and natural environment is strongest where pedestrian access to transit and other services via transit enable households and businesses to function with reduced use of the automobile (livable communities). Livable community benefits depend on transit's ability to serve as a desirable alternative to the automobile for a variety of trip purposes, particularly non-work trips, and to influence development patterns in a way which results in shorter trips and more walking trips.

Livable Communities Initiative demonstrates the transit contribution toward improving the quality of life in communities through an active and participatory planning process. This initiative would produce transit facilities that are customer-friendly and community-oriented, and promote local land-use and transportation policies supportive of transit. At present there are projects in 21 communities totaling over \$51 million. Thirteen projects are within National Empowerment Zones/Enterprise Communities with a total investment of over \$32 million. In addition, FTA sponsored a one-day summit with the State of Maryland to establish a forum on sprawl development. The concepts embodied in the Livable Communities effort have been incorporated into the planning process that is part of all new starts projects.

ECONOMIC GROWTH AND TRADE

One of transit's most important benefits is its ability to move many people efficiently and to reduce the economic costs of congestion. Congestion annually costs more than \$40 billion in wasted time and fuel in our major metropolitan areas. Without transit, the nationwide costs in these metropolitan areas would be \$15 billion higher. Transit takes drivers off the road and improves the commute times of transit riders and automobile users alike. Targeted investments in high-quality transit in strategic corridors can significantly improve overall door-to-door travel times for both transit and highway users.



The chart shows that the planned and coordinated growth in transit service has resulted in net growth of

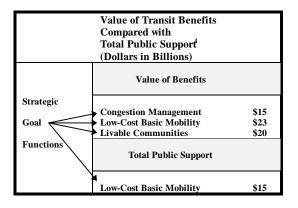
6.0 percent in passenger miles since 1983, or an annual growth rate of 0.5 percent per year. Although transit investment levels have not been sufficient to fully meet the requirements to maintain current conditions and performance, transit usage has been able to grow. This has required trade-offs between new service and improvements to existing service.

- **Full Funding Grant Agreements** (FFGAs) were awarded for new fixed guideway construction (valued at over \$2.7 billion). These projects include an aggregate local commitment of over \$700 million and an overmatch of \$200 million. indicating a strong, long-term local commitment to the provision of high-quality public transit service. Since January 1993, FTA has signed FFGAs for 21 projects totaling \$8.3 billion. When State and local funds are also considered, these projects will result in the investment of over \$14 billion in new mass transit infrastructure. Due to FTA's longterm commitment to new starts. directional route miles on rail transit have grown from 5,761 miles in 1985 to 8,206 miles in 1995, a growth rate of 4.2 percent per year.
- Joint Development revised policy published on March 14, 1997, encourages transit systems to use available real estate to support joint developments and generate income. Several multi-million dollar projects were underway by

the end of the FY, including a major development at the White Flint Metro Station in suburban Maryland. This development will include 1,400 residential units, 1.2 million square feet of office space and retail space as well as sufficient parking to serve the residential community and the transit station.

BENEFITS OF TRANSIT

While the surrogate measures of transit condition, supply, and usage represent a good initial analysis of the performance of transit, and of the Federal transit assistance programs, the measures do not represent the real outcome of Federal support for transit. Rather, the benefits produced are the outcomes which should be focused on -- Mobility and Accessibility, Economic Growth (including congestion management), and the Human and Natural Environment (including livable communities). Recent FTA research has estimated a part of the value of the benefit produced by transit in each of these three functional areas. The following table displays those estimates:



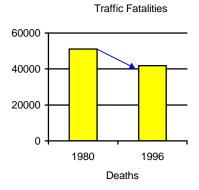
¹ Public support for transit (Federal, state and local) is more than repaid in benefits. As noted, these estimates are incomplete, not yet fully accounting for the full range of impacts. Research is continuing on the valuation of transit's benefits. FTA research will also be directed at estimating these benefits on a year by year basis, in order to develop trend information and linkages with FTA's budget.

PROGRAM GOALS, MEASURES AND PERFORMANCES

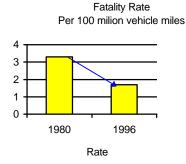
Goal	Measure	Performance
Decrease by one percent per year the average age of the bus and railcar fleets (interim).	Average age of bus and railcar fleets (interim). For optimal performance, the average age of the bus and rail car fleets should be about 6 and 12.5 years, respectively.	In 1995, the average ages of transit buses and rapid rail cars were 8.1 years and 19.3 years, respectively. Since there is a 2 to 4 year lag from the time an obligation is made for a bus to its delivery to the transit operator, these figures indicate the increase in capital funding initiated in FY 1993 is beginning to bring down the average age of the bus fleet. Rail cars are replaced on a less consistent basis than buses due to the relative small size of the rapid rail fleet.
100 percent accessible bus fleet by 2002.	Percentage accessible buses.	By the end of 1997, seven years after enactment of ADA, the active fleet is approximately 65 percent lift-equipped.
Increase by one percent per year the amount of transit service supplied (interim).	Revenue vehicle hours (interim). As a measure of transit service supply, revenue vehicle hours are a reasonable indicator of the degree to which transit is generating mobility and accessibility benefits. In FY 1998, FTA will introduce data generated by the national Geographic Information System (GIS) on number of persons with access to transit bus and fixed rail routes.	There has been a steady increase in revenue vehicle hours since 1983, which have grown at an annualized rate of 1.2 percent since 1993, and 1.9 percent since 1983.
Increase by one percent per year the percentage of people having access to high quality transit.	Revenue vehicle hours (interim). In FY 1998, FTA will introduce data generated by the national GIS, including the number of persons within 1/4 mile of transit stops with a service frequency of 15 minutes or less.	Revenue vehicles hours have grown at an annualized rate of 1.2 percent since 1993, and 1.9 percent since 1983.

ational Highway Traffic **Safety Administration**

The mission of NHTSA is to save lives. prevent injuries and reduce trafficrelated healthcare and other economic costs. NHTSA pursues this mission by developing, promoting and implementing effective educational, engineering, and enforcement programs toward ending preventable tragedies and reducing economic costs associated with vehicle crashes (estimated at \$150 billion annually). As a result of NHTSA's programs, motor vehicle travel has become safer. Traffic fatalities have decreased from 51.091 in 1980 to 41,907 in 1996.



The fatality rate per 100 million vehicle miles has fallen from 3.3 in 1980 to 1.7 in 1996.



Despite this progress there are a number of challenges that NHTSA must address, for example, the number of highway-related fatalities has increased since 1992 and the fatality rate, although improved since 1980, has been stalled at 1.7 since 1992. This has substantially increased the focus on providing technical assistance to the States in developing comprehensive strategies, targeting traffic law enforcement problems, and reducing the human loss and economic costs caused by traffic crashes. Emerging traffic safety issues such as aggressive drivers, drugged drivers, non-belted drivers and passengers, red light running drivers, combining with speed create new challenges that make progress more difficult and requires innovative strategies and a strong Federal role. The Department's Strategic Plan developed in 1997 guides program priorities.

NHTSA's programs have proven to be cost-effective. A NHTSA analysis of the Department's highway safety programs showed that society receives a return of \$9 for each dollar spent on vehicle and highway safety. Programs administered by NHTSA are funded from the Highway Trust Fund and the General Fund. Thus funding supports research, highway safety and vehicle programs, and also grants to States and the National Driver Register.

Major Programs

TRAFFIC SAFETY PROGRAMS



The traffic safety programs administered by NHTSA encompass a range of program strategies to reduce crashes and their consequences. NHTSA administers the Safe Communities program which, through the creation of partnerships, enables communities to identify, understand and address their traffic safety problems. Traffic safety programs also include highway safety research activities and education and outreach efforts, particularly relating to air bag and child safety.

Occupant Protection Programs
 support the goals outlined in the
 Presidential Initiative for Increasing
 Seat Belt Use nationwide to
 85 percent by 2000. National safety
 belt usage is currently 68 percent.

NHTSA continues to implement awareness and education activities concerning safety belt and child safety seat use, as well as, coordinate the efforts of national organizations to complement new public and private sector efforts to reduce the aggressivity problem of air bags to unrestrained and improperly restrained vehicle occupants.

- Impaired Driver Programs

 encourage stricter laws and
 enforcement and better training and
 outreach to reduce driving that is
 impaired by drug and alcohol use.

 Currently 41 percent of all traffic fatalities are alcohol-related. The 2005 goal is to reduce the number of alcohol-related fatalities to 11.000.
- Other Safety Programs continue to increase the number of people educated about air bag safety, improve emergency medical services, and focus attention on pedestrians, bicyclists and older and younger drivers. NHTSA establishes strategies to combat drug use by youth in support of the President's Initiative on Drugs, Driving and Youth. In the highway research area. NHTSA continues to investigate and demonstrate methods to control speeding. aggressive driving and other unsafe driving acts, as well as, improve pedestrian and bicyclist safety.

SAFETY PERFORMANCE STANDARDS

Vehicle Safety Standards
 <u>Program</u> obtains and analyzes information on changes in automotive design and technology and on regulatory and non-regulatory alternatives to increase motor vehicle safety. The program

responds to rulemaking petitions and focuses on information to support the development of and amendments to Federal motor vehicle safety standards. Work continues on assessing advanced air bag technologies, development of an offset frontal test standard and harmonization of vehicle safety standards with other countries.

provides consumers with relative crashworthiness information on passenger vehicles to assist them in purchasing decisions. NHTSA conducts frontal and side impact tests at 35 mph to obtain the information for consumers. This information also motivates vehicle manufacturers to provide higher levels of occupant protection by using market forces. NHTSA tested 42 cars in FY 1997.



Information was available on 152 makes and models at the beginning of the model year representing over 86 percent of the new vehicles sold. The agency first tested 26 cars for side impact in 1997. NHTSA had side impact safety information on 41 cars for model year 1997,

accounting for about 53 percent of new cars sold in the U.S.

 Other Programs report statistics on motor vehicle theft and other insurance related data and collect data as part of the Fuel Economy Program.

SAFETY ASSURANCE

Vehicle Safety Compliance
 ensures that all motor vehicles and
 motor vehicle equipment sold in the
 U.S. provide the safety benefits
 intended by Federal safety
 regulations or qualify for the
 appropriate exemptions. The
 compliance program incorporates
 the testing, inspection and
 investigation necessary to ensure
 compliance with the performance
 requirements of Federal Motor
 Vehicle Safety Standards.

Since the inception of the National Traffic and Motor Vehicle Safety Act in September 1966, 3,400 investigations for possible noncompliance were initiated in January 1996 through September 1997, of which 3,370 have been completed and closed. In addition, from September 1966 through September 1997, civil penalties collected for Safety Act violations totaled more than \$4 million.

Safety Defects Investigations
 Program collects, analyses, and acts on information related to safety defects that affect the occurrence and severity of crashes.

 Investigations are conducted to ensure that manufacturers remove defective vehicles and items of

motor vehicle equipment from the Nation's highways. NHTSA also analyzes recalls conducted by manufacturers to determine whether notification to owners, scope of vehicles or equipment covered and remedy performed are adequate. In 1996, there were 301 recalls involving 18.5 million vehicles, tires and pieces of equipment for safety problems. This is the second highest number of vehicles recalled in a single year in NHTSA's history. One-fourth of the recall campaigns, representing 73 percent of the vehicles recalled, were influenced by NHTSA investigations.

- enforce Federal laws and provide funds to States/localities to help them reduce odometer fraud. Since the enactment of the Truth in Mileage Act of 1986, 310 cases were referred to the U.S. Department of Justice for prosecution. NHTSA was responsible for 239 criminal convictions in Federal courts.
- Auto Safety Hotline serves as the primary contact for consumers to report problems with motor vehicles or motor vehicle equipment that may warrant a safety defect investigation and also to provide consumers with timely information concerning motor vehicle safety such as recall information and general information to increase consumer understanding and awareness of highway safety. The Hotline (1-800-424-9393) received over 778.000 calls from consumers in 1996, seeking information on a wide variety of highway safety issues,

from child seat installation, to recalls, to crash data on specific vehicles.

RESEARCH AND DEVELOPMENT

NHTSA's research programs provide the foundation for improvements in the safety of motor vehicles and driver behavior. A major emphasis of the research program is on air bag aggressivity. Research was conducted by the National Transportation Biomechanics Research Center on international harmonization, crash avoidance and maintaining and improving the critical data programs administered by the National Center for Statistics and Analysis.

Biomechanics research is concerned with understanding the automotive injury process and developing methodologies capable of evaluating and effecting improvements in crash safety. Part of the research involves analyses conducted at trauma centers through Crash Injury Research and Engineering Network on the human consequences of real world crashes. The National Center for Statistics and Analysis collects data vital to the vehicle and behavioral programs of NHTSA, FHWA and other Department programs, State and local governments, as well as, vehicle manufacturers, insurers and highway safety public interest groups.

Crash Avoidance research is conducted on new conventional vehicle technologies which are steadily being introduced into the market by vehicle manufacturers. The safety attributes of collision avoidance systems are also evaluated under the Intelligent Transportation Systems program

funded in the FHWA budget. Also funded in the FHWA budget is NHTSA's National Advanced Driving Simulator which will be an invaluable tool for evaluating driver-vehicle interactions and advanced driver information technologies when completed in 1999. In September 1993, President Clinton, Vice President Gore, and the Chief Executive Officers of Chrysler, Ford, and General Motors announced establishment of the Partnership for a New Generation of Vehicles, which is aimed at strengthening U.S. competitiveness and protecting the environment. The NHTSA portion of the program will ensure that vehicles developed under the program meet existing and anticipated Federal vehicle safety standards.

HIGHWAY SAFETY GRANTS

NHTSA provides grants to States including Section 402 formula grants and Section 410 Alcohol Incentive grants. The Section 402 grant program is a performance-based formula program that provides the States with the opportunity to set their own highway safety goals and develop program strategies to meet them. State programs are focused on national priorities including impaired driving prevention, occupant protection, police traffic services, emergency medical service/trauma care, traffic records, pedestrian/bicycle safety, motorcycle

safety, speed control and roadway safety. States can use funds to form Safe Communities partnerships to address highway safety problems. By September 30, 1997, over 277 Safe Community programs were underway. The Section 410 Alcohol-Impaired Driving Incentives program continues to provide effective incentives to motivate States to implement innovative strategies to reduce drunk and drugged driving. States can receive basic and supplemental grants based on specific actions such as enactment of laws and implementation of programs to reduce impaired driving. A total of 38 States qualified for Section 410 grants as of FY 1997.

NATIONAL DRIVER REGISTER (NDR)

The National Driver Register provides a very critical transportation safety function by allowing State motor vehicle administrators to communicate with other States to identify problem drivers. The NDR is a central repository of identification information on individuals whose license to operate a motor vehicle has been revoked, suspended, canceled or denied in any State and is used by other transportation-related organizations such as the Federal Aviation Administration, Federal Railroad Administration, United States Coast Guard, air carriers and employers in making licensing or certification decisions.

PROGRAM GOALS, MEASURES AND PERFORMANCES

Goal	Measure	Performance
Support the goals outlined in the Presidential Initiative for Increasing Seat Belt Use.	Increase safety belt usage nationwide 85 percent by 2000.	National safety belt usage is currently 68 percent.
Encourage stricter laws, enforcement, better training and outreach to reduce driving that is impaired by drug and alcohol use.	Reduce the number of alcohol-related fatalities to 11,000 by 2005.	Currently, 40.9 percent of all traffic fatalities are alcohol-related.

ederal Railroad Administration (FRA)

FRA was created in 1966, to promote and enforce safety throughout the U.S. railroad system, rehabilitate the Northeast Corridor rail passenger services, consolidate Federal support for rail transportation, and support research and development for rail transportation. FRA works with other elements of DOT on the timely and effective implementation of the ISTEA.

The primary responsibility of FRA is to protect railroad employees and the public by ensuring the safe operation of freight railroads, the National Railroad Passenger Corporation (Amtrak), and commuter railroads.



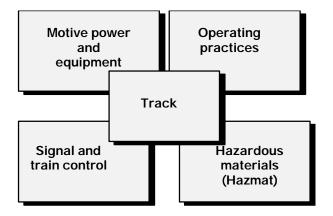
FRA pursues its safety programs through vigorous public outreach that makes people aware of the danger of highway-rail crossings and trespassing on railroad rights-of-way.

Saving lives through improved safety is an important goal. FRA is poised to support the U.S. in the next century by advancing technology so transportation is safer, faster, more efficient, environmentally sound, and reliable.



RAILROAD SAFETY PROGRAM

The Railroad Safety Program protects railroad employees and the public by ensuring the safe operation of passenger and freight trains. FRA's safety program includes 399 field safety inspectors and trainees organized by five discipline areas --



During the first six months of 1997, FRA and State inspectors performed over 23,929 inspections. Approximately 91 percent (21,714) of these inspections were of railroads. This required on-site visits to over 565 railroad companies and over 1,132 other companies. Other companies are primarily involved in the manufacturing or shipping of hazardous materials.

Over 68,000 observations were made in different inspection areas in the first six months of 1997. Observations correspond to various safety rules and regulations. In the course of a single inspection, observations may be made in multiple areas. Inspectors examined approximately 1.4 million units, e.g., tank cars, locomotives, switches, records, and operating practices, etc.

Area of Noncompliance	Number of Findings
Motive Power Equipment	54,423
Track	30,011
Operating Practices	19,838
Signal	10,665
Hazmat	7,453

Inspectors identified a total of 122,390 instances of noncompliance with Federal requirements.

SAFETY MISSION AND INITIATIVE

To accomplish its safety mission and support the Department's safety goals and objectives, FRA has established an initiative to reduce annual rail-related fatalities by 10 percent from the 1993 level, to 1151, by 1998. Annual rail-related fatalities in 1993 were 1,279. During the period January 1997 - July 1997, 691 rail-related fatalities were reported (see chart on page I-37).

FINANCIAL ASSISTANCE TO RAILROADS

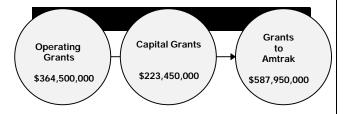
FRA's financial assistance to railroads principally involve grants to the Amtrak for operating expenses, capital projects, and infrastructure improvements on the rail corridor between Boston, MA and Washington, DC.

AMTRAK

• Grants to the Amtrak Program will assist Amtrak's move toward financial stability and very high-quality passenger service. Amtrak was established in 1970 through the Rail Passenger Service Act and is operated and managed by members appointed by the Executive Branch of the Federal Government. This program funds part of the ongoing operations of Amtrak and Amtrak's capital requirements.

The Amtrak Board of Directors, led by the Department of

Transportation, and the Corporation's managers are committed to reducing Amtrak's net operating loss to zero while maintaining a national passenger rail system. Grants to Amtrak in 1997 totaled \$587,950,000. These grants are comprised of \$364,500,000 for operating grants, and \$223,450,000 for capital grants.



- The Operating Grants consist of an operating subsidy of \$222,500,000 and mandatory passenger rail service payments of \$142,000,000. The operating subsidy is consistent with the Department's and Amtrak's Board of Directors commitment to reducing or eliminating Federal operating assistance by the beginning of the century. The mandatory passenger rail service payments are based on Amtrak's employment levels, wages and changes to maximum retirement benefit levels.
- The Capital Grants component supports Amtrak's primary capital investments outside the Northeast Corridor. These investments include the acquisition of new equipment, the modernization of equipment with significant

remaining service life, the restoration of facilities and the overhaul/repair of equipment. Investments in these areas will improve on-time performance and quality of rail travel. The successful use of these capital funds is reflected in Amtrak's Customer Service Index (CSI) and in an improved financial performance. Investments in maintenance of equipment and facilities have the added benefit of reducing employee injuries.

The Northeast Corridor Improvement Program (NECIP) began as a \$2 billion program to upgrade Amtrak's main line between Washington, DC and Boston, MA. This line is divided into two segments--Segment One Washington, DC to New York City, NY and Segment Two New York City, NY to Boston, MA. Upgrading the rail lines for these segments will help Amtrak improve trip-time and passenger compacity along the Northeast Corridor. Amtrak plans to achieve its goals of providing 2 hours 45 minutes triptime between Washington, DC and New York City, NY and 3 hours trip-time between New York City. NY and Boston, MA by the year 2000. When this program is completed, rail passenger service along the entire 457 mile corridor between Washington, DC and Boston, MA will rank among the premier rail service in the world.

As part of the program, FRA evaluates Amtrak's quarterly and year-to-date financial and service performances and projected year-end progress

toward attaining a goal of zero Federal operating subsidy by the year 2002.

Measure	Goals	3rd Qtr Goals	Variance
Service Quality:			
On-Time Performance	86.8%	74.4%	-12.4%
Customer Satisfaction Index	85.6%	84.0%	-1.6%
Complaint Index	81.3%	78.0%	-3.3%
Injuries	1,109	2,187 ¹	+1,078
Financial:			
Passenger Miles	5,156.0	5,166	+2%
Passenger Revenues ²	\$962.1	\$963.9	+\$1.8
Total Revenues	\$1,615.5	\$1,673.7	+\$5.82
Yield (cents)	17.69	17.64	+.3%
Budget Results	(\$44.3)	(\$59.4)	-\$15.1
Operating Results	1.47	1.45	-0.2
(Dollars in Millions)			

(Dollars in Millions)

The total budgetary resources for the program in FY 1997 were \$175,000,000. FRA's current goal is to complete the NECIP by the year 2000 and ensure that it matches world standards.

Several construction projects have already been started along the corridor. These projects include track improvements, upgrades to control systems, fencing and grade crossing elimination, and improvement to service facilities and stations.

FY 1997	FY 1997
Goals	Work Season
	Performance ³
Complete 8,000	5,727 Catenary
Catenary Pole	Pole Foundations
Foundations	completed
Set 6000 Catenary	3,024 Catenary
Poles	Poles set
Set 4,700 Cantilever	839 Cantilever
Arms	Arms set
String 1,068,000 ft of	403,000 ft of
Messenger & Feeder	Messenger &
Wire	Feeder Wire strung
Begin 6 Overhead Bridge Replacements	4 Overhead Bridge Replacements begun
Remove 2 Overhead	2 Overhead
Bridges	Bridges removed
Convert 6 Open Deck	7 Open Deck
Bridges	Bridges converted

During FY 1997 Amtrak's engineering consultants prepared cost estimates for projects which will expand capacity, increase train speeds for commuter trains, and reduce travel times for intercity trains. Social benefits to highway users from reduced congestion resulting from investments in the Northeast Corridor are estimated at \$1.6 billion over 40 years. Capital savings of \$435 million have been estimated.

¹ Includes injury data formerly processed by the freight carriers.

² Excludes 403(b) State payments.

³ Data for the period of January 1997 - September 1997. Annual data ending December 31, 1997 will be reflected in the FY 1998 financial statements.

PROGRAM GOALS, MEASURES AND PERFORMANCES

Goal	Measure	Performance
Over 5 years (1994-1998) reduce the rate of train accidents by 15 percent from the 1993 level (4.54) to a target rate of 3.85.	Number of train accidents per million train-miles.	The preliminary rate for FY 1997 is 3.15.
Over 5 years (1994-1998) reduce the rate of hazardous materials releases by 25 percent from the 1993 level (17) to a target rate of 13.	Number of rail cars which release hazardous materials per billion hazardous materials ton-miles.	Preliminary data for FY 1997 is not available. The FY 1997 rate will be reported in FY 1998.
Over 5 years (1994-1998) reduce the railroad employee fatalities and injuries rate by 20 percent from the 1993 level (30) to a target rate of 24.	Number of railroad employee fatalities and injuries per million work-hours.	The preliminary rate for FY 1997 is 15.60.
Over 5 years (1994-1998) reduce the rate by 40 percent from the 1993 level (45) to a target rate of 26.87.	Number of railroad passenger fatalities and injuries per billion passenger-miles.	The preliminary rate for 1997 is 24.93.
Over 5 years (1994-1998) reduce the rate of highway-rail grade crossing accidents by 25 percent from the 1993 level (3.5) to a target rate of 2.6.	Number of highway-rail grade crossing accidents per train-miles times annual highway vehicle-mile of travel.	The preliminary rate for FY 1997 is 2.09.
Over 5 years (1994-1998) reduce the trespasser fatalities rate by 10 percent from the 1993 level (3.3) to a target rate of 3.0.	Number of trespasser fatalities per million train-miles times total U.S. population.	The preliminary rate for FY 1997 is 2.09.

nited States Coast Guard (USCG)

The USCG is a multi-missioned maritime service and one of the Nation's five Armed Services. Its mission is to protect the public, the environment and U.S. economic interests in our ports and waterways, along the Nation's coasts, on international waters, and in any maritime region as required to support national security.

The Coast Guard manages its performance through five outcome areas: (1) Safety, (2) Protection of Natural Resources, (3) Mobility, (4) Maritime Security and (5) National Defense. Activities undertaken to achieve these outcomes are performed in seven major programs which are funded through a variety of appropriations and revolving accounts.

People	e, Aircraft	s, Vessels & Facilities
<u>1997</u>	<u>1996</u>	
5,608	5,742	Civilian Employees
34,890	36,524	Active duty military employees
7,496	7,800	Selected Reserve military members
225	225	Ships 65' and over
1,500	1,400	Small boat under 65'
212	195	Aircraft-fixed wing & helicopters
300	300	Buildings with 28 million square feet of space
34,364	34,364	Coast Guard Auxiliarist

The link between outcomes and programs is not discrete because the Coast Guard is a multi-mission organization and a mix of program activities contribute to each outcome.



SEARCH AND RESCUE PROGRAM



Through this program, USCG provides assistance to mariners or property in distress or in danger. To accomplish this program, USCG employs vessels and aircrafts to conduct searches and provide on-scene assistance. USCG has a policy of coordinating commercial search and rescue services, if available, where neither life nor property is in immediate danger. The USCG Auxiliary is a civilian and volunteer organization that was established in 1939. The approximately 35,000 members are experienced boaters and licensed pilots using their own assets. The USCG Auxiliary is a cost-effective supplement to the search and rescue and boating safety missions.

AIDS TO NAVIGATION PROGRAM

USCG operates and maintains 50,000 aids to navigation. These aids consist of both short and long range aids. Short range aids to navigation, such as buoys, fog signals and lights (including lighthouses), are established and maintained by a fleet of 35 seagoing and coastal buoy tenders. This fleet will be reduced to 30 during the next few years as a new generation of buoy tenders become operational.

The long range radio-navigation transmitters include Loran, Omega, and the Differential Global Positioning System. With the introduction of the Global Positioning System, all Loran stations will be phased out by the turn of the century.

MARINE SAFETY PROGRAM

The Marine Safety Program consists of two subprograms, the Commercial Vessel Safety Subprogram and the Recreational Boating Safety Subprogram.

Commercial Vessel Safety Subprogram includes merchant vessel licensing, inspections and review of plans for new ship construction. The goal of the Marine Safety Program is to minimize deaths, injuries, property loss and environmental damage by developing safety standards for the design, construction, maintenance, and operation of U.S. commercial ships and offshore facilities such as oil drill rigs. To accomplish this, the USCG conducts annual safety inspections of these vessels and facilities. The USCG also issues

Certificates of Documentation (similar to car registrations) for these vessels and facilities.

Various laws, including the Omnibus Budget Reconciliation Act of 1990, authorized the USCG to charge user fees for various marine safety activities such as the inspection of vessels. USCG collected approximately \$24.8 million in FY 1997. This amount was less than the total cost to the USCG for conducting these services. The amount of user fees collected over the last 6 years was approximately \$160.1 million.

Recreational Boating Safety
 (RBS) Subprogram is designed to
 minimize fatalities, injuries, and
 property damage among the
 Nation's recreational boaters. For
 FY 1997, Congress appropriated
 \$35 million for grants to the States,
 and \$10 million for grants was
 available under permanent law.

MARINE ENVIRONMENTAL PROTECTION PROGRAM

The goal of this program is to minimize damage from actual spills of oil and hazardous materials. A related USCG responsibility is the management of the Oil Spill Liability Trust Fund (OSLTF). This Fund, created by the Oil Pollution Act of 1990 (OPA) was financed by a 5 cents per barrel of oil tax, up to \$1 billion. From 1990 to 1994, this tax was the primary income for the OSLTF. The tax expired in December 1994. An effort to reinstate the tax in FY 1998 was unsuccessful.



OPA specifies that the responsibility for cleaning up oil spills lies with the spiller; however, \$50 million annually is available to the USCG for emergency responses to oil spills until the spiller has had time to organize his own cleanup efforts. In addition, these funds are available for cleaning up oil spills if the spiller cannot be identified, and for payment of claims for losses attributable to the spill. Approximately \$25 million was transferred from this Fund to marine safety operations for preventive actions.

At the end of FY 1997, the USCG managed over 1068 active cases, including many begun in prior years. FY 1997 commitments for removal efforts for these cases totaled

\$49.6 million. Another \$4.8 million was spent to adjudicate and pay claims.

A major responsibility of the USCG is the enforcement of the International Convention for the Prevention of Pollution from ships, known as MARPOL. Included in this enforcement mandate is oil pollution, noxious liquids pollution, and plastic garbage pollution.

The USCG also oversees the development and approval of industry plans for the cleanup of oil spills, as required by the OPA. It represents the Department of Transportation in the development of a multi-agency National Contingency Plan for responding to oil spills.

ENFORCEMENT OF LAWS AND TREATIES PROGRAM

The USCG enforces all Federal laws on the high seas subject to U.S. jurisdiction and on U.S. flag vessels anywhere in the world. USCG vessels and aircraft interdict drug smugglers and illegal immigrants and enforce U.S. fisheries regulations. Fisheries enforcement occupies about half of Coast Guard's operating time for cutters and about one-third for aircraft.

The USCG works with other Federal departments and agencies, including the Departments of Commerce, Justice, Treasury and Defense in carrying out this program. Of particular interest is the Coast Guard executed Operation FRONTIER SHIELD. The operation's objective is to deny smugglers' maritime access to Puerto Rico. By interagency estimates, FRONTIER SHIELD has been highly successful. Drug seizures are at record levels and the cocaine flow into Puerto Rico has been reduced by more than 46 percent. Puerto Rico is no longer overwhelmed by drug traffickers and illegal migrants. Drug related crime is down 37 percent from the year before and the Governor no longer needs to rely on the Puerto Rico National Guard to maintain order in the housing projects. Today, on the streets of San Juan and its feeder cities like New York. cocaine street prices are up and purity is down.

DEFENSE READINESS PROGRAM

The USCG is one of the Nation's five Armed Forces. Unlike the other military services, the USCG does not concentrate primarily on the role of national defense. Drawing upon its other missions, the USCG provides unique capabilities for national defense that do not duplicate the other Armed Forces.

The USCG must have operating units with the combat capability necessary to function as an Armed Force. By statute, the USCG may become a part of the Department of the Navy upon the declaration of war by the Congress. In FY 1997, the USCG received approximately \$300 million from DOD defense-related mission appropriations. Activities include joint exercises with the Navy, port security, and training and assisting the Navy with overseas deployments such as the Gulf War.

ICE OPERATIONS PROGRAM

The USCG is the lead Federal agency in managing and operating the Nation's icebreakers both in the polar regions and in domestic waters. The polar icebreakers support the National Science Foundation and Department of Defense icebreaking requirements in the Arctic and Antarctic. The polar icebreakers provide capability to support national defense, scientific research and other national interests in polar regions. Domestic icebreakers facilitate U.S. maritime transportation through iceladen domestic waters.

PROGRAM GOALS, MEASURES AND PERFORMANCES

Goal	Measure	Performance
Save mariners in imminent danger.	Lives saved/lives saved plus lives lost after Coast Guard notification.	94 percent of all mariners in imminent danger were saved after Coast Guard notification.
Reduce recreational boating fatalities.	The number of fatalities per 100,000 numbered (registered) boats.	The fatality rate has dropped from 28.7 per 100,000 estimated recreational boats when the program was created. The number of fatalities reported decreased from 836 in 1995 (6.9 fatalities per 100,000 registered boats) to 714 (5.9 per 100,000 registered boats) in CY 1996.
Reduce worker fatalities from maritime accidents.	Fatalities per 100,000 maritime workers.	There were 43 fatalities per 100,000 maritime workers.
Reduce the amount of oil and chemicals discharged into the water from maritime sources.	Gallons spilled/million gallons shipped.	In FY 1996, 6.63 gallons of pollutants were spilled for every 1 million gallons shipped.
Reduce the flow of illegal drugs from the FY 1995 baseline of 71 percent to 38 percent by 2000 by denying maritime smuggling routes as part of the interagency effort to impact the national demand level.	Smuggler Success Rate (amount of illegal drugs entering U.S. via noncommercial maritime sources/potential undeterred flow of illegal drugs via noncommercial and commercial maritime sources).	The FY 1996 Smuggler Success Rate was 73 percent.
Provide core competencies (Maritime Interception Operations, Deployed Port Operations and Environmental Defense) as requested or currently planned by U.S. Navy Commanders in Chief or the Department of State.	Number of operations/number of requests.	The Coast Guard responded to 100 percent of the DOD requests to participate in exercises.

aritme Administration (MARAD)

The mission of MARAD builds on our maritime heritage and strengthens the maritime industry for the continued security and prosperity of the Nation.

MARAD has primary Federal responsibility for ensuring the availability of efficient water transportation service to shippers and consumers. MARAD also seeks to ensure that the U.S. enjoys adequate shipbuilding and repair service, efficient ports, effective intermodal water and land transportation connections, and reserve shipping capacity for use in time of national emergency.



MARAD's national security, shipbuilding, intermodal, and trade strategic goals guide the agency in carrying out its mission in four ways: (1) advancing the capabilities of the maritime industry to provide total logistics support to the military services during war or national emergencies and maintaining an inactive National Defense Reserve Fleet, including a surge component, the Ready

Reserve Force, to support emergency and national security sealift needs; (2) assisting U.S. shipyards to become more competitive in world shipbuilding markets; (3) improving the effectiveness and efficiency of all marine segments of the U.S. intermodal transportation system; and, (4) providing support to the U.S. Merchant Marine to help it achieve competitiveness in domestic and international trade.

In FY 1997, MARAD employed a nationwide workforce of 978 and administered programs authorized by the Merchant Marine Act of 1936, as amended, and related Acts, to promote a strong U.S. Merchant Marine. MARAD provides operating aid to U.S. flag ship operators; administers the maritime guaranteed loan portfolio; monitors the cargo preference laws of the U.S.; reimburses the Commodity Credit Corporation for the expanded cargo preference requirement in the Food Security Act of 1985; preserves and maintains merchant ships retained in the National Defense Reserve Fleet including the Ready Reserve Force; undertakes emergency planning and coordination; promotes port and intermodal development: administers war risk insurance; operates the U.S. Merchant Marine Academy; and provides support to six State/Region maritime colleges.

Major Programs

MARITIME SECURITY PROGRAM (MSP)

The MSP provides funding to maintain a U.S. flag merchant fleet crewed by U.S. citizens to serve both the commercial and national security needs of the U.S.

Payments are made to U.S. carriers for 47 dry cargo ships (capped at \$2.1 million per ship per year) employed in U.S. intermodal liner trades. This program is authorized through FY 2005, and is subject to annual appropriations. In exchange for the payment, the U.S. carrier agrees to provide DOD with "assured access" to modern and efficient U.S. flag commercial liner ships, intermodal equipment and systems, including terminal facilities, as well as, providing a base of experienced U.S. merchant mariners to transport DOD contingency and sustainment cargoes anywhere in the world.

The MSP was enacted into law in the first quarter of FY 1997. A carryover of \$46 million unobligated from FY 1996 combined with the FY 1997 appropriation of \$54 million became available to commence funding the MSP in FY 1997.

Contracts for the authorized 47 ship level were all signed by January 21, 1997. Based upon estimated reflagging dates and phase out of the existing Operating-Differential Subsidy (ODS) contracts of some ships enrolled in the MSP, MARAD paid approximately \$43.1 million in FY 1997 and anticipates payment of \$90.1 million for 1998, assuming reflagging schedules remain as anticipated. The estimated total cost of MSP is \$825 million, which is 17.5 percent less than the authorized level of \$1 billion due to changes in the authorization start date and vessel reflagging dates.

The primary focus of the MSP is the achievement of MARAD's national security strategic goal. MARAD also believes that ensuring the existence of a skilled American mariner workforce to

crew U.S. ships in emergencies facilitates achievement of MARAD's other strategic goals. MARAD is pursuing a two-pronged strategy to achieve its national security strategic goal which emphasizes provision of a relatively modest amount of Federal maritime support dollars to carefully selected carriers in order to retain "assured access" to a world-class U.S. flag intermodal sealift capability at the lowest possible cost. Without this capacity, the Nation's vital national military and economic interests would be compromised as it would be prohibitively expensive for the government to own sufficient shipping resources to sustain projected U.S. military operations in an emergency. Beginning in FY 1997, MARAD launched two synergistic programs, MSP and the Voluntary Intermodal Sealift Agreement (VISA). These two programs combined with the U.S. government's reserve sealift fleets will ensure that sufficient resources will be available to meet DOD surge and sustainment requirements.

NATIONAL DEFENSE RESERVE FLEET (NDRF) AND READY RESERVE FORCE (RRF) PROGRAMS

The primary focus of the NDRF and RRF programs are the achievement of MARAD's national security strategic goal. The NDRF is an inactive reserve fleet of 217 ships, which can be activated to meet shipping requirements during national emergencies. NDRF ships are preserved and maintained by MARAD. MARAD spends about \$285 million annually to maintain the NDRF, which is valued at \$894 million. The NDRF ships are primarily cargo ships and tankers. The RRF was established in 1976, as a subset of the NDRF. Of the 217 ships currently in the NDRF, 94 are RRF ships.

RRF ships are upgraded and maintained to be fully operational and tendered to the Military Sealift Command within 4 to 20 days after notification. The RRF is structured for quick-response ship availability to transport Army and Marine Corps unit equipment and initial resupply for forces deploying anywhere in the world during the critical initial period before adequate numbers of Navycontrolled or commercial ships can be obtained.

All RRF vessels must have both a high degree of military utility and a significant remaining useful life. MARAD contracts with ship managers for maintenance and repair, activation, manning, and operation of the RRF. The readiness of the RRF program is tested regularly by no-notice activation of randomly selected ships or scheduled activation for military cargo operations or exercises. The first large scale activation of the RRF to support military mobilization was to support OPERATION DESERT SHIELD/ STORM. This activation led to interest in additional funding for maintenance and testing, as well as, for the use of reduced operating status crews for priority ships to further ensure a high state of readiness. The NDRF/RRF program is funded by the Department of Defense (DOD) through the National Sealift Trust Fund.

RRF	FY 1997 Actual	FY 1998 Planned
# of Sea Trials	51	69
# of Ships	94	96
Funding	\$256.6	\$309.7

(Dollars in Millions)

During FY 1997, the reliability of active RRF ships was 95.1 percent over a combined total of 3,029 ship-days under operational control by the Military Sealift Command. An accident involving one tanker put the ship out of service for an extended period. Excluding this accident, RRF reliability would have been 99.8 percent. Since FY 1994, the first year when operational reliability data were collected, the reliability of the RRF has exceeded 99 percent, with the exception of FY 1997.

MARITIME GUARANTEED LOAN (TITLE XI) PROGRAM

The Title XI program promotes the growth and modernization of the U.S. merchant marine fleet and U.S. shipyards in support of MARAD's shipbuilding strategic goal. The program enables companies to obtain long-term financing from the private sector on terms and conditions and at interest rates that may otherwise be unavailable in the commercial market. Under the Title XI Program, the Federal Government guarantees full payment to the lender of the unpaid principal and interest in the event of default. Funds guaranteed under this program are obtained from the private sector to aid in U.S. shipyard construction and reconstruction of merchant vessels and U.S. shipyard modernization projects.

Beginning in FY 1992, the Credit Reform Act required MARAD to obtain appropriations to cover the estimated subsidy cost of new Title XI Loan Guarantees. Appropriations are also required to fund administrative expenses. An appropriation of \$37.45 million was approved for FY 1997 subsidy costs and \$3.45 million for administrative expenses. In FY 1997, approvals of \$330 million

were issued for Title XI financing. As of September 30, 1997, Title XI in force totaled approximately \$2.6 billion, covering approximately 1,692 vessels. MARAD had no defaults in FY 1997.

OPERATING DIFFERENTIAL SUBSIDY (ODS) PROGRAM

This program provides subsidies to U.S. ship operators to place U.S. flag vessels on a parity with those of foreign competitors. These are 20 year contracts between the Federal Government and subsidized vessel operators. Subsidy is provided for wages in all cases, and maintenance and repair and insurance costs in some cases. Appropriations are provided to liquidate contract authority. Payments were about \$121.6 million in FY 1997 and will continue at a declining level until FY 2003 as existing contracts expire and final accounting and contract reconciliation occur.

Current law requires that most subsidized ships be built in U.S. shipyards. The statutory life of ODS ships is 25 years for dry cargo ships and 20 years for tankers. Currently there are 3 liner operators with 14 vessels and 5 bulkers (9 vessels) under subsidy.

The ODS program, which is the predecessor of the MSP, is being phased out as the MSP is implemented. The ODS program was designed to fulfill the same strategic goals as the MSP, but the program methodology is significantly more complicated, more expensive, and based upon earlier legislation.

OCEAN FREIGHT DIFFERENTIAL (OFD) PROGRAM

In general, a portion of all shipments of food and humanitarian assistance paid for by the Department of Agriculture and the Agency for International Development must be shipped on U.S. flag vessels. This requirement supports MARAD's trade strategic goal to increase the U.S. maritime industry's participation in foreign trade.

The Government pays the differential between shipping costs on U.S. flag vessels and foreign flag vessels. P.L. 99-198 increased from 50 to 75 percent the amount of agricultural commodities under specified programs that must be carried on U.S. flag vessels. In general, the differential shipping costs are covered by the Federal agency shipping the goods, but MARAD is required to reimburse the Department of Agriculture for ocean freight differential costs for the added tonnage above 50 percent but not exceeding the additional 25 percent. These reimbursements are funded through borrowing from the Treasury.

During the past ten years, MARAD reimbursed the Department of Agriculture \$376 million for its OFD obligations. This resulted in just under 15 million metric tons of additional agricultural food aid cargo for U.S. flag carriers at an average OFD rate of \$26 per metric ton.

CAPITAL CONSTRUCTION FUND (CCF) PROGRAM

The CCF program supports MARAD's shipbuilding strategic goal by assisting operators to accumulate their own capital in order to build, acquire, and reconstruct

vessels through the deferral of Federal income taxes on eligible deposits. Operators may defer taxes on funds deposited in the CCF and withdraw the money at a later date to build or acquire vessels. In general, the taxable income of the operator is reduced to the extent deposits of money are made into the fund. The outstanding fund balances amounted to \$1.2 billion at the end of FY 1997, with 136 fund holders. There have been cumulative deposits of \$6.3 billion since program inception to accomplish construction and acquisition programs.

MARITIME EDUCATION AND TRAINING

MARAD provides world-class maritime education and training at the U.S. Merchant Marine Academy at Kings Point, NY and provides Federal support for six State/Region maritime academies through direct payments to the schools, incentive payments to cadets and maintenance and repair of ships provided to the schools as primary training aids. Support for the education and training of U.S. citizen seafarers helps to meet MARAD's national security strategic goal by ensuring that American mariners with appropriate skills are available to crew commercial and government-owned cargo ships in times of national emergencies.

WAR RISK INSURANCE FUND (WRIF) PROGRAM

The program encourages continued flow of U.S. foreign commerce during periods when commercial insurance cannot be obtained on reasonable terms and conditions to protect vessel operators and seamen against losses resulting from war. This program offers the advantage

of avoiding the high rates charged by commercial insurers, which Defense or other Federal agencies would have to pay when chartering or hiring shipping into certain areas. The Federal Government is a self insurer that has some degree of control over the risks involved. MARAD also administers a stand-by war risk insurance program. As of September 30, 1997, there were 261 binders on vessels and barges providing eligibility for hull protection and indemnity and Second Seamen's war risk insurance. One new assured received six binders during FY 1997. The WRIF total available funding was approximately \$27.5 million. During FY 1997, the Fund earned \$1.76 million in investment income and had a total expense of about \$50 thousand.

PROGRAM GOALS, MEASURES, AND PERFORMANCES

Goal	Measure	Performance
Sustain an active U.S. merchant fleet of a sufficient capacity of general cargo ships to meet military sustainment requirements.	Approximately 142,200 (Twenty- foot Equivalent Units) TEUs or equivalent lift capability.	Forty-seven ships were enrolled in the MSP during FY 1997. These ships have a combined intermodal sealift capability of approximately 120,000 TEUs. Another 26,000 TEUs of non-MSP capacity were available under VISA.
Sustain an active deployed workforce of capable seafarers to meet national defense and ongoing commercial carriage during national emergencies.	Approximately 2,400 seafarers.	The 41 ships that were awarded MSP agreements during FY 1997 will sustain employment for about 2,345 seafarers.
Provide reserve strategic sealift resources to meet DOD surge and other national security requirements.	Deliver ships within DOD-assigned readiness 100 percent of the time. Ensure that once operational, ships are mission capable greater than 95 percent of the time.	Eleven RRF ships were ordered activated by DOD in no-notice tests of their readiness. All 11 were activated within assigned times after receiving DOD activation orders. For the period FY 1992-1997, all no-notice activations have been on time with the exception of FY 1994 when 95 percent were on time.
Foster private investment of approximately \$1.2 billion in commercial vessel construction and shipyard modernization projects.	Leverage Title XI funding to provide approximately \$1 billion in loan guarantees.	Title XI applications totaling \$330 million were approved during FY 1997. The 12 approved projects covered the construction of 40 vessels and 2 shipyard modernization projects. Pending applications approximated \$955 million as of September 30, 1997.

Goal	Measure	Performance
Continue negotiations with ODS operators that emphasize the need to reduce the program's administrative burden. Continue commitment to contain program costs. Continue adherence to a policy of no contract modifications to expand existing contracts and no issuances of new contracts. Continue emphasis on activities that will foster a smooth transition to the MSP for eligible operators.	The primary focus for the ODS program is the orderly and efficient phase out of program activities by FY 2003.	During 1997, MARAD successfully negotiated streamlined ODS rate making methodologies with liner operators to reduce the program's administrative burden. Discussions with the bulk operators have also been successful, but agreements have been more limited in scope. Agreements have been reached with 3 bulk operators, and discussions have been held with 3 others, although no firm agreements have been finalized.
Improve the administration of OFD and the reimbursement process.	The target date for implementation of the proposed changes is January 1, 1998.	A Notice of Proposed Rulemaking for calculating fair and reasonable guideline rates was published in the Federal Register on February 28, 1997. A Final Rule, which reflects changes recommended in the public comments was forwarded to the Office of Management and Budget and the Office of the Secretary of Transportation on September 30, 1997.
Enhance the graduate tracking data system to achieve the ability to make compliance determinations on a current basis.	Identify USMMA graduates and SIP program participants from State maritime academies who do not satisfactorily comply with maritime industry employment and other service obligations.	Efforts focused on the USMMA Class of 1995, the first class for which MARAD has the opportunity to pursue repayment of the cost of educating noncompliant USMMA graduates. Almost 200 graduates of the USMMA Class of 1995 are in compliance. Disciplinary actions will be taken as appropriate for non-compliant graduates. Hardware for the new graduate tracking data system has been procured and installed. Software development should be completed in December 1997.

esearch and Special Programs Administration (RSPA)

The mission of RSPA is to make America's transportation systems more integrated, effective, and secure by conducting and fostering crosscutting research and special programs to enhance the quality of life, safety, the environment, and the well-being of all Americans. RSPA's mission can be broken down into three major programs: (1) transportation safety, (2) research and technology, and (3) emergency preparedness.

RSPA' safety mandate is to protect the Nation from the risks inherent in the transportation of hazardous materials by all modes, including pipelines.

Major Programs

TRANSPORTATION SAFETY PROGRAM

Hazardous Materials (HAZMAT) Safety Program identifies hazardous materials and works with the shipping and carrier industry, Federal, State, and local Government agencies, and others on standards and regulations regarding packaging, labels, operating practices, response planning, and employee training. HAZMAT uses technology and risk management to maximize safety and economic benefit of national and international regulations and program actions. Regulated materials include bulk shipments of highly hazardous materials and compressed gas containers. The program also set requirements for training employees involved in transporting hazardous materials. RSPA maintains a toll-free telephone information service (1-800-467-4922) to provide immediate help regarding safe hazardous materials practices.



During FY 1997, RSPA continued to improve the safety of air travel by banning the transport of oxygen generators in the cargo compartment of passenger aircrafts, hiring additional inspectors and providing training to help ensure that industry complies with requirements for air transportation of hazardous materials.

RSPA extended the Hazardous Materials Regulations to all intrastate transportation of hazardous materials by motor carrier. They also upgraded their Internet site and hazardous materials information center to allow for public access to hazardous materials transportation information.

By providing businesses with information to comply with the regulations, RSPA hopes to reduce the number of undeclared hazardous materials shipments.

• Pipeline Safety Program ensures the safe, reliable, and environmentally sound operation of the Nation's pipeline transportation system. This national program regulates the design, construction, operation, maintenance, and emergency response procedures pertaining to natural gas and hazardous liquids, pipeline systems and liquefied natural gas (LNG) facilities. RSPA develops, issues, and enforces pipeline safety regulations.



During FY 1997, RSPA collaboratively built a risk management program framework with the pipeline industry, State agencies and public representatives which has resulted in an excellent response from pipeline operators interested in planning for and participating in the risk management demonstration projects. The education process RSPA is using consists of many new approaches,

including joint industry, Office of Pipeline Safety (OPS) and State training, innovative use of satellite broadcasts and Internet access, new public information system, and information exchange with the National Response Team and local emergency planning committees.

During FY 1997, RSPA also reduced the number of pipeline failures by completing over 323 inspections of natural gas and 360 inspections of hazardous liquid pipelines. The reduction is attributed to the effect of recent damage prevention regulation, doubling of field inspection efforts since 1995, the national educational focus of the Damage Prevention Quality Team, DOT and States efforts to improve legislation, and the emphasis in the State grant program on improving one-call systems, education and enforcement of existing laws.

Transportation Safety Institute
(TSI) supports safety and security programs for all modes of transportation through the development in, and administration of, training in many forms: classroom teaching, self-teaching course modules, train-the-trainer courses, and distance learning. The safety professionals who are the recipients of TSI's safety training come from all levels of Federal, State and local Governments, industry, and business.

In FY 1997, TSI developed 25 new courses and provided a total of 435,540 student training hours.

RESEARCH AND TECHNOLOGY PROGRAM

Transportation Systems Center
(Volpe Center) has Federal
transportation and logistics
expertise in research, analysis,
development and deployment of
transportation technologies. The
Volpe Center handles systems for
clients in DOT and other Federal
agencies on a fee-for-service basis.
The Volpe Center also serves as a
bridge to industry, academia, and
other Government agencies on
emerging trends in national and
international transportation.

In FY 1997, the Volpe Center obligated \$204 million on just over 300 projects. These projects include an advanced navigation system plan to increase the capacity and safety of the Panama Canal; further enhancements to the Advanced Traffic Management System used by the FAA; improved guidelines of Human Factors engineering for the design and evaluation of cockpit avionics, air traffic control, and high speed rail; and development for DOT's Office of Motor Carrier's safety performance monitoring system called SAFESTAT.

Research Policy and Technology
 <u>Transfer Program</u> shapes and advances the U.S. transportation research and development (R&D) agenda by: leading departmental and national strategic planning efforts; conducting system-level assessments; facilitating national and intergovernmental partnerships; stimulating university research and

education; designing and delivering safety training; disseminating information on departmental, national and international transportation R&D; and managing strategic (intermodal/multimodal) transportation R&D. These research, technology and education activities support the Department's commitment to achieving a safe. technologically advanced, and efficient transportation system that promotes economic growth and international competitiveness and contributes to a healthy and secure environment.

Among some of the research and technology (R&T) accomplishments in FY 1997, RSPA developed the first Government-wide Transportation Science and Technology Strategy for the White House. The Strategy provides guidance on transportation R&D priorities of the Department and the Federal Government; improves interoperability among the modes; and defines intermodal performance indicators and standards. Also, RSPA conducted a wide range of outreach activities and deployed a National Transportation Science and Technology Homepage to improve communications and coordination among transportation modes, Federal agencies, State and local Governments, colleges and universities, industry and the public. These entities are also included in the transportation R&D planning process.

 University Research and <u>Education Program</u>
 is a Federal investment of

\$19.25 million generating approximately \$34 million in intermodal and multi disciplinary research and education programs and technology transfers.

Of these programs, approximately 500 students received scholarships or fellowships and many others have enrolled in transportation related courses and degree programs supported, in part, by the University Transportation Centers Program.

EMERGENCY PREPAREDNESS PROGRAM

Emergency Transportation
Program develops and maintains
the Department's emergency
preparedness policies and
programs, and manages
Transportation's Crisis Management

Center covering a full spectrum of civilian and national security crisis. RSPA staff coordinates the Departmental response to local and national disasters. During FY 1997, RSPA responded to 29 emergencies. Of these responses, they collected and analyzed information concerning potential and declared natural and man-made disasters with regard to serious transportation disruptions. The value obtained from these actions was that DOT remained responsive to Federal Emergency Management Agency and the DOT support agencies responding to the crisis. Also, DOT maintained credibility of the Department in meeting the Department's transportation responsibilities under the Federal Response Plan.

Surface Transportation Board (STB)

STB was established on January 1, 1996, by the Interstate Commerce Commission Termination Act of 1995 (ICCTA). The ICCTA eliminated the Interstate Commerce Commission (ICC) and transferred certain functions formerly performed by the ICC to the STB. The STB is a three-member, bipartisan, decisionally-independent adjudicatory body with jurisdiction over certain surface transportation economic regulatory matters.

The mission of STB is to promote substantive and procedural regulatory reform in the economic regulation of surface transportation, and to provide a forum for dispute resolution and facilitation of appropriate business transactions.

In performing its mission, the STB will continue to streamline case processing and applicable regulations, to ensure that market-based transactions in the public interests are facilitated in a forum for efficient dispute resolution and application of legal and equitable principles, and to develop new opportunities for various sectors of the industry to work together to find creative solutions to persistent industry and/or regulatory problems.

During FY 1997, STB took over 1400 actions, involving adjudications and rulemakings, resolving or otherwise acting upon matters such as rail consolidations, abandonments, and line constructions and sales; review of rail

labor arbitral decisions: and rail rates and services. Some of these actions also related to motor carrier undercharge rate cases, intercity bus mergers and pooling matters, motor collective ratemaking, and non-rail rate matters, such as pipeline rate cases. In performance of its goals, the STB has issued several rulemakings streamlining regulations and the regulatory process including rail rate and exemption proceedings, expediting rail line abandonments and discontinuance proceedings, and exempting selected commodities and services from economic regulation.

ureau of Transportation

BTS was established in late 1992, as part of the ISTEA to improve the knowledge base for public decision making, and to improve the public awareness of the Nation's transportation system and its consequences. BTS is a statistical agency, a mapping agency, and an organization for transportation analysis. No other Federal agency combines these activities under one roof. BTS compiles and publishes statistics on all major transportation modes, conducts long-term data collection programs, and identifies needs for transportation data. BTS provides its Government users as well as the general public with uniform and comprehensive financial, traffic,

and economic data for the transportation industry. DOT uses this data and customized computer services to support policy initiatives, advance safety programs, meet international travel responsibilities, and comply with international treaty obligations.

BTS publications are available to government agencies, private industry, and the public at minimal or no cost. To make statistics more understandable. BTS is developing less esoteric measures of transportation and exploring new ways to visualize data. The Bureau is also undertaking a variety of training initiatives to improve understandability of both data products and analytical methods. BTS is also working with other agencies to preserve essential data items for transportation planners on the Year 2000 census.

ffice of the Secretary (OST)

The OST under the executive direction of the Secretary gives leadership, professional guidance, broad oversight, and coordination in the development and implementation of policies, plans, and programs to DOT. OST serves as the catalyst for many of the Department's initiatives.

The OST has responsibilities which expand departmentwide as well as within its immediate sphere. From a departmentwide perspective, OST exercises leadership in transportation matters and provides planning, policy, budget, legal, administrative, and program support to the departmental administrations. Through a team effort, the Department works singly and in partnership with other areas of government, private industry and the broader transportation community to achieve it mission and objectives as outlined in the DOT Strategic Plan.

WELFARE TO WORK PROGRAM

A welfare-to-work transportation initiative in ISTEA was developed that called for \$600 million in grants to address the transportation needs of former welfare recipients. It also worked with the OAs, the private sector, and the non-profit welfare-to-work partnerships to assure that the transportation sector is responding to President Clinton's challenge to hire former welfare recipients.

INVESTING IN EDUCATION

Last spring, as part of the President's Summit for America's Future, Secretary Slater pledged to use the Garret A. Morgan program to ensure that all Americans have marketable skills for the 21st century jobs. Built on partnerships with transportation and education communities, the Morgan Program features four key components: improving student's math, science and technology; strengthening the links between the transportation sector and community colleges, junior colleges, and technical schools; expanding transportation programs at undergraduate and graduate institutions; and easing the transition from school to work in the transportation field. The life-long learning component will stimulate collaborative partnerships to endure the availability and accessibility of continuing education programs for transportation professionals. The Morgan program was recently recognized in Colin Powell's America's Promise Report Card as one that will help fulfill its commitment by reaching 250,000 students in the next year.

ASSISTANCE TO FAMILIES OF AVIATION DISASTERS

The greatest advancement this year in improving the assistance to families following aviation disasters was the work of the Task Force on Assistance to Families of Aviation Disasters. The Task Force set forth 61 recommendations to serve as a blueprint for the proper treatment of families by all of those involved following an aviation disaster, many of which are being implemented. DOT

also coordinated the development of plans for responding to aviation disasters involving civilians on government aircraft. With regard to legislation, DOT worked closely with the Congress in drafting the Foreign Air Carrier Family Support Act, which was signed into law by the President on December 16, 1997. DOT has also expressed the Administration's strong support for legislation to amend the Death on the High Seas Act.

OPEN SKIES

In 1997, the U.S. achieved Open Skies aviation agreements with 15 countries, more than in all previous years combined, bringing the total number of Open Skies agreements in force to 28. These agreements opened the doors for United States carriers to serve foreign communities and for foreign carriers to serve U.S. communities, thus giving those communities access to the international marketplace.

U.S. Open Skies Agreements

Netherlands Antilles Singapore Romania Jordan Chile Germany Czech Republic Aruba Malaysia Austria New Zealand Belgium Denmark Nicaragua Costa Rica Finland Honduras Iceland El Salvador Luxembourg Guatemala Norway Panama Sweden Taiwan Switzerland Brunei Netherlands

ELECTRONIC DOCKETS SYSTEM

Breaking new ground in the effort to involve Americans in the governmental decisionmaking process, Secretary Slater unveiled the first electronic docket system on the worldwide web in 1997. Docketed information is only a click away on this state-of-the-art system. Vast public files associated with federal regulations and other transportation activities are now easily accessible anywhere in the world on the internet at http://dms.dot.gov 24 hours a day. Now you can find information on regulatory subjects ranging from airport security, alcohol and drug testing procedures, seat belts and air bags, motor carrier driver fatigue, urban transportation assistance to air service subsidies at your fingertips. In addition, adjudicatory matters such as proposed airline alliances are available.

By making regulatory information available on the information superhighway, DOT is taking government directly to the people. President Clinton and Vice President Gore are committed to making government work better for the American people, and DOT is doing just that with its new electronic dockets management system. The new system will save the Department approximately \$500,000 annually.

It is already a model throughout the federal government and the world. Officials from Canada and New Zealand have visited the department's dockets system to see how it works. Representatives from other agencies are also interested in setting up similar docket web sites.

ransportation Administrative Service Center (TASC)

TASC has completed its first year of operation. TASC provides common administrative services to OST, the DOT Operating Administrations, and other governmental entities. As a business-like operation, TASC recovers its operating costs through fees.

COMMON ADMINISTRATIVE SERVICES

WORKLIFE WELLNESS

HEADQUARTERS BUILDING MANAGEMENT

INFORMATION SERVICES

LEARNING AND DEVELOPMENT

SPACE MANAGEMENT

SECURITY OPERATIONS

SYSTEM DEVELOPMENT

INFORMATION TECHNOLOGYOPERATIONS

ACQUISITION SERVICES

HUMAN RESOURCE SERVICE CENTER

During FY 1997, its first full year of operation, TASC developed the management framework and infrastructure necessary to operate as a strong self-sustaining organization. TASC has focused on becoming the provider of choice for support services in over 55 areas to the Department's Operating Administrations as well as non-departmental customers. TASC increased its total revenue from \$81.6 million in FY 1996 to

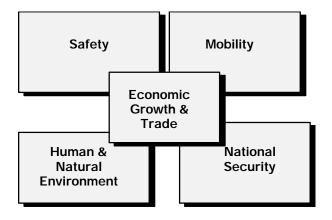
\$107.4 million in FY 1997, an increase of \$25.8 million, including a 674 percent increase in revenue from non-DOT customers. In addition, TASC reduced overhead expenses from 4.52 percent in FY 1996 to 2.34 percent in FY 1997, a 48.2 percent decrease. Major accomplishments include the successful implementation of the Information Technology Omnibus Procurement (ITOP) program. ITOP is a highly visible, Government-wide, 7 year, \$1.13 billion information technology service program that embodies the tenets of the National Performance Review and various procurement reform legislation of recent years. This program is considered to be one of the most successful of its kind in government.

TASC has developed performance measures for its business practices and will track those measures in FY 1998. Tracking these measures will enable TASC to focus both on the level and quality of service provided.

ffice of Inspector General (OIG)

The Inspector General (IG) Act of 1978, as amended, established the Office of Inspector General (OIG) as an independent and objective unit within the Department. In support of its statutory mission, OIG conducts and supervises audits and investigations relating to the programs and operations of the Department; recommends policies designed to promote economy, efficiency, and effectiveness in the administration of programs and operations; takes appropriate actions to prevent and detect fraud, waste, and abuse in the Department's programs and operations; and keeps the Secretary of Transportation and Congress currently informed regarding problems and deficiencies and the necessity for and progress of corrective actions.

OIG's primary goal is the successful fulfillment of its statutory mission, as stated above. In addition, OIG performs specific activities in support of the Secretary's three major goals of (1) improving safety, (2) enhancing strategic investment in transportation infrastructure, and (3) achieving common sense government as well as assisting DOT in achieving the five goals established in the Department's Strategic Plan.



OIG's performance measures are based on those developed by the President's Council on Integrity and Efficiency (PCIE). These measures assess the outcome and effectiveness of OIG performance in terms of meeting its statutory responsibilities and are focused on quantitative results. OIG continues to redefine and expand these measures in the future to capture OIG's support of the Secretary's goals, DOT's Strategic Plan, and its success in preventing problems and acting proactively. OIG's current performance measures are listed below with FY 1997 results.

Statistics Defined by the IG Act and **Related Performance Information** capture results from investigations and audits.

Investigative Results	FY 1997
Indictments	133
Convictions	103
Fines	\$2.7
Court Ordered Restitutions/Civil Judgments	\$3.5
Federal Recoveries	\$6.2
Years Sentenced	97
Years Probation	220
Debarments & Other Administrative Actions	120

(Dollars in Millions)

Audit Results	FY 1997
Number of Reports Issued	144
Financial Recommendations	\$138.3
Management Decisions to Seek Recoveries	\$196.2
CFO Audit Adjustments	\$32,000.0

(Dollars in Millions)

Non-Monetary Program
 <u>Improvements</u> measure
 implementation of the IG Act
 requirement to provide policy direction
 for Agency programs and operations.

FY 1997
257
234

<u>Legislation and Regulations</u>
 <u>Reviewed</u> track the implementation of the IG Act requirement to review existing and proposed legislation and regulations relating to Agency programs and operations.

Items Reviewed	FY 1997
Legislation Reviewed	38
Regulations Reviewed	99

Number of Hotline Complaints
Processed show the implementation
of the IG Act requirement to receive
and investigate complaints or
information concerning possible
violations of laws, rules or regulations,
waste, abuse, or dangers to the public
health and safety.

Hotline Results	FY 1997
Hotline Complaints Received	550
No Action Required	58
Referred to OIG	110
Referred to Operating Administrations or Other Agencies*	382

^{*}OIG tracks the disposition of these complaints.

 OIG Advisory Functions measure implementation of the IG Act requirement to keep the Secretary and Congress informed of problems and deficiencies and measure requests for technical assistance by DOT agencies and participation in PCIE-initiated projects.

	FY 1997
OIG Advisory Functions	11

Saint Lawrence Seaway Development Corporation (SLSDC)

SLSDC is a wholly-owned Government corporation created to construct, operate, and maintain a safe, reliable and efficient deep draft shipping route. This Saint Lawrence Seaway System includes the Great Lakes and the Saint Lawrence River to the Atlantic Ocean. It provides a vital means of international commerce and economic development,

allowing import and export between the North American heartland and the world. SLSDC also has responsibility for the promotion of trade and traffic through this waterway.

Since SLSDC is subject to separate reporting under the Government Corporation Control Act and the dollar value of its activities is not material to Department totals, SLSDC line item amounts have not been included in the DOT principal financial statements.

SECTION II

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED FINANCIAL STATEMENTS

imitations of the Financial Statements

- The financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b).
- While the statements have been prepared from the books and records of the
 entity in accordance with the formats prescribed by OMB, the statements are in
 addition to the financial reports used to monitor and control budgetary resources
 which are prepared from the same books and records.
- The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

U.S. Department of Transportation Consolidated Balance Sheet

As of September 30, 1997 (Dollars in Thousands)

Assets	1997 DOT Total
Entity Assets:	
Intragovernmental Assets:	
Fund Balance with Treasury (Note 2)	\$ 10,040,271
Investments (Note 3)	30,033,478
Accounts Receivable, Net (Note 4)	461,103
Interest Receivable, (Net)	397,732
Other Assets (Note 5)	532,531
Governmental Assets:	
Investments (Note 3)	27
Accounts Receivable, Net (Note 4)	103,442
Interest Receivable, (Net)	207
Credit Program Receivables and	
Related Foreclosed Property, Net (Note 6)	208,333
Cash and Other Monetary Assets (Note 7)	7,096
Inventory and Related Property, Net (Note 8)	2,017,124
Property, Plant and Equipment, Net (Note 9)	26,504,000
Other Assets (Note 5)	200,134
Total Entity Assets	\$ 70,505,478
Non-Entity Assets:	
Intragovernmental Assets:	
Fund Balance with Treasury (Note 2)	\$ (22,827)
Investments (Note 3)	854,103
Interest Receivable, (Net)	11,155
Other Assets (Note 5)	24,304
Governmental Assets:	
Accounts Receivable, Net (Note 4)	15,662
Total Non-Entity Assets	882,397
Total Assets	\$ 71,387,875

U.S. Department of Transportation Consolidated Balance Sheet

As of September 30, 1997 (Dollars in Thousands)

Liabilities		
Liabilities Covered by		1997 DOT Total
Budgetary Resources:		
Intragovernmental Liabilities:		
Accounts Payable	\$	345,631
Debt (Note 10)	•	197,914
Interest Payable		179
Other Intragovernmental Liabilities (Note 11)		477,371
Governmental Liabilities:		
Accounts Payable		1,588,515
Liabilities for Loan Guarantees (Note 6)		99,788
Other Governmental Liabilities (Note 11)		290,495
Total Liabilities Covered by		
Budgetary Resources	\$	2,999,893
Liabilities Not Covered by		
Budgetary Resources:		
Intragovernmental Liabilities:		
Accounts Payable	\$	1,425
Debt (Note 10)	•	21
Other Intragrovernmental (Note 11)		1,406,690
Governmental Liabilities:		-,,
Lease Liabilities (Note 12)		101,656
Pensions, Other Retirement Benefits and		,,,,,,
Other Post-Employment Benefits (Note 13)		13,982,109
Other Governmental Liabilities (Notes 11 & 21)		2,134,384
Total Liabilities Not Covered by		
Budgetary Resources	\$	17,626,285
Total Liabilities	\$	20,626,178
	•	
Net Position		
Balances:		
Unexpended Appropriations (Note 14)	\$	9,108,694
Cumulative Results of Operations	•	41,653,003
Total Net Position		50,761,697
Total Liabilities and Net Position	\$	71,387,875
	-	1 1,2 2 1 ,0 1 0

U.S. Department of Transportation Consolidated Statement of Operations

For the Period Ended September 30, 1997 (Dollars in Thousands)

Revenues and	1997 DOT Total
Financing Sources	
Appropriated Capital Used	\$ 9,837,320
Revenues from Sales of Goods and Services	* ***
To the Public	136,260
Intragovernmental	744,922
Interest and Penalties, Non-Federal	25,662
Interest, Federal	2,034,062
Taxes (Note 15)	28,446,785
Other Revenues and Financing Sources (Note 16)	2,346,483
Less: Taxes and Receipts Transferred	(0.000 - 00)
to the Treasury or Other Agencies	(3,826,738)
Total Revenues and	
Financing Sources	\$ 39,744,756
Expenses	
Program or Operating Expenses (Note 17)	\$ 38,781,606
Cost of Goods Sold	
To the Public	54,864
Intragovernmental	690,432
Depreciation and Amortization	25,719
Bad Debts and Writeoffs	20,761
Interest Fodoral Financing Bank/Treasury	
Federal Financing Bank/Treasury Borrowing	1,005
Other	8,843
Other Expenses (Note 18)	406,131
Total Expenses	\$ 39,989,361
Total Expolicio	Ψ 00,000,001
Excess (Shortage) of Revenues and	
Financing Sources Over Total Expenses	
Before Extraordinary Items	\$ (244,605)
Excess (Shortage) of Revenues	
and Financing Sources	
Over Total Expenses	\$ (244,605)
Change in	
Net Position	
Net Position, Beginning Balance, as	
Previously Stated	\$ 11,439,543
Adjustments (Note 19)	36,178,493
Net Position, Beginning Balance, as	00,110,400
Restated	47,618,036
Excess (Shortage) of Revenues and	, , , , , ,
Financing Sources Over Total Expenses	(244,605)
Plus (Minus) Non Operating Changes (Note 20)	3,388,266
Net Position, Ending Balance	\$ 50,761,697

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Significant Accounting Policies:

A. Basis of Presentation

The Departmental consolidated financial statement has been prepared to report the financial position and results from operations of the Department of Transportation (DOT), as required by the Chief Financial Officers Act of 1990 (CFO Act), as amended by the Federal Financial Management Act of 1994 (FFMA), Title IV of the Government Management Reform Act of 1994 (GMRA). The statement has been prepared from the books and records of DOT in accordance with Office of Management and Budget (OMB) requirements for form and content for entity financial statements and DOT's accounting policies and procedures. OMB Bulletin 94-01 was used to prepare the Statement of Operations while OMB Bulletin 97-01 was used to prepare the Balance Sheet and the Statement of Budgetary Resources. Since this was the first year of preparation of the Statement of Budgetary Resources, it has been presented only as supplemental information. These statements are different from the financial reports prepared pursuant to OMB directives that are used to monitor and control the use of budgetary resources.

B. Reporting Entity

DOT serves as the focal point in the Federal Government for the Coordinated National Transportation Policy. It is responsible for ensuring the safety of all forms of transportation; protecting the interests of consumers; international transportation agreements; conducting planning and research for the future; and helping cities and states meet their local transportation needs through financial and technical assistance.

The Department is comprised of the Office of the Secretary and the DOT Operating Administrations, each having its own management and organizational structure and collectively providing the necessary services and oversight to ensure the best transportation system possible. The Departmental consolidated financial statement represents the financial data, including various trust funds, revolving appropriations and special funds of the following organizations:

Office of The Secretary (OST)
Federal Aviation Administration (FAA)
United States Coast Guard (USCG)
Federal Highway Administration (FHWA)
Federal Railroad Administration (FRA)
National Highway Traffic Safety Administration (NHTSA)
Maritime Administration (MARAD)
Federal Transit Administration (FTA)
Bureau of Transportation Statistics (BTS)
Surface Transportation Board (STB)
Office of Inspector General (OIG)
Research and Special Programs Administration (RSPA)
Transportation Administrative Service Center (TASC)

The Saint Lawrence Seaway Development Corporation (SLSDC) is also an entity of DOT. However, since it is subject to separate reporting under the Government Corporation Control Act and the dollar value of its activities is not material to Departmental totals, SLSDC's financial data have not been consolidated in the DOT financial statements. However, condensed information about SLSDC's financial position is included in Note 23.

NOTES TO THE FINANCIAL STATEMENTS

C. Budgets and Budgetary Accounting

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular A-34, Instructions on Budget Execution. Each year, Congress provides each Operating Administration within DOT appropriations to incur obligations in support of agency programs. For FY 1997, the Department was accountable for trust fund appropriations, general fund appropriations, revolving funds and borrowing authority. DOT recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through warrants and trust fund transfers.

D. Basis of Accounting

Transactions are generally recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. An exception to this rule is the Airport and Airway Trust Fund revenues from excise taxes. They are recorded on the basis of cash transferred from the Treasury General Fund. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

E. Revenues and Other Financing Sources

DOT receives the majority of the funding needed to support all of its programs through appropriations. Some of these appropriations are funded by the Highway Trust Fund, Airport and Airway Trust Fund, Aquatic Resources Trust Fund, and the Treasury General Fund. DOT receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained from service fees (e.g., registry fees) and through reimbursable agreements for services performed for domestic and foreign governmental entities. Additional revenue is earned from gifts from donors, interest/dividends on invested funds, loans and cash disbursements to banks. Interest income received is recognized as revenue on the accrual basis. Appropriations are recognized as revenues as the related program or administrative expenses are incurred.

F. Funds with the U.S. Treasury and Cash

DOT does not generally maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The funds with the U.S. Treasury are appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchases. DOT has substantially reduced the number of petty cash (imprest) funds outside the U.S. Treasury to reduce the amount of cash paid outside of Treasury. This reduces the amount of interest which must be paid to borrow funds. DOT does not maintain any balances of foreign currencies.

G. Loans Receivables

Loans are accounted for as receivables after funds have been disbursed. For loans obligated prior to October 1, 1991, loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectable amounts. The allowance is estimated based on past experience, present market conditions, and an analysis of outstanding balances. Loans obligated after September 30, 1991, are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

H. Inventory and Operating Materials and Supplies

Inventory primarily consists of supplies which are for sale or used in the production of goods for sale. Operating materials and supplies primarily consist of unissued supplies that will be consumed in future operations. Valuation methods for supplies on hand at yearend include last acquisition price/last repair cost, weighted average, and standard cost. Expenditures or expenses are recorded when the materials and supplies are consumed or sold.

I. Investments in U.S. Government Securities

Investments which consist of U.S. Government Securities are reported at cost, or amortized cost net of amortized premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the interest or straight-line method. The Department's intent is to hold investments to maturity, unless they are needed to cover losses on loan guarantees, finance programs, or otherwise sustain the operation of the organization. Investments, redemptions, and reinvestments are controlled and processed by the Department of the Treasury.

J. Property and Equipment

DOT agencies have varying methods of determining the value of property and equipment and how it is depreciated. DOT currently has a provisional capitalization threshold of \$200,000 for structures and facilities and \$25,000 for other property, plant and equipment. Capitalization at lesser amounts is encouraged.

The Department has very limited historical cost to support the value of the property and equipment reflected on the Balance Sheet. Also, the Department has made limited use of depreciation but this will change when the new Statement of Federal Financial Accounting Standards (SFFAS) becomes effective.

Construction in progress is valued at direct (actual) costs plus applied overhead and other indirect costs as accumulated by the regional project material system. The system accumulates costs by project number assigned to the equipment or facility being constructed. Capital leases consist of lease agreements for land and buildings at the Mike Monroney Aeronautical Center in Oklahoma City, Oklahoma, and at the William J. Hughes Technical Center located in Pomona, New Jersey.

K. Prepaid and Deferred Charges

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

L. Liabilities

Liabilities represent amounts expected to be paid as the result of a transaction or event that has already occurred. Liabilities for which an appropriation has not yet been enacted are classified as unfunded liabilities, and there is no certainty that the appropriation will be enacted. Also, liabilities arising from other than contracts can be abrogated by the Government, acting in its sovereign capacity.

M. Borrowings Payable to Treasury

FAA borrowing involves loans from the Treasury to fund expenses form the Aircraft Purchase Loan Guarantee Program. Treasury renews the debt obligation until FAA receives an appropriation to liquidate the principal and interest.

FRA has direct loans from Treasury and guaranteed loans made by the Federal Financing Bank (FFB) to railroads and guaranteed by FRA under provisions of the Railroad Rehabilitation and Improvement Program and the Amtrak Corridor Improvement Program. FRA records these loans as though they were direct loans.

OST borrows from the Treasury to finance loans to disadvantaged transportation-related businesses using revolving lines of credit. These OST loans are made through the Short Term Lending Program which provides assistance to disadvantaged, minority and women-owned businesses and is administered by the Office of Small and Disadvantaged Business Utilization.

FHWA Borrowings Payable to the Treasury are for direct loans in the High Priority Corridor Program. Upon repayment of the loans, the funds are returned to the Treasury.

N. Interest Payable to Treasury

FAA owes interest to Treasury based on its debt to Treasury as a result of borrowing for the Aircraft Purchase Loan Guarantee Program. Through FRA, the Amtrak Corridor Improvement Program and Railroad Rehabilitation Programs are required to make periodic interest payments to Treasury based on their debt to the U.S. Government.

O. Contingencies

Criteria for recognizing contingencies are that they are probable and reasonably estimable. For example, material contingent liabilities for claims are recognized if (1) they have been asserted, or, if not yet asserted, in the opinion of General Counsel are more likely to be asserted than not; (2) in the opinion of General Counsel, they are more likely to be paid than not; and (3) the probable payment can be estimated by General Counsel.

P. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. In FY 1997, accruals for other leave (e.g., credit hours, compensatory leave, home leave, and military leave) are also recorded in the financial statement. Under the Transportation Administrative Service Center, the liability for accrued annual leave is a funded item. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expended as taken.

Q. Retirement Plan

For DOT employees who participate in the Civil Service Retirement System (CSRS), DOT contributes a matching contribution equal to 7 percent of pay.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law (P.L.) 99-335. Most employees hired after December 31, 1983, are

pursuant to Public Law (P.L.) 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which DOT automatically contributes 1 percent of pay

and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, DOT also contributes the employer's matching share for Social Security.

Effective in FY 1997, DOT implemented SFFAS No. 5, "Accounting for Liabilities of the Federal Government." The standard requires that employing agencies recognize pensions and other post retirement benefits during the employees' active years of service. Reporting the assets and liabilities associated with such benefits is the responsibility of the administering agency, the Office of Personnel Management. Therefore, DOT does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to employees.

The USCG Military Retirement System is a defined benefit plan which covers all active duty and reserve members of the USCG. This plan was established under authority of the United States Code, Titles 10 and 14. This system is funded on a "pay-as-you-go" basis.

R. Comparative Data

Comparative data for the prior year has not been presented because this is the first year for preparing the new Balance Sheet and the Statement of Budgetary Resources.

Note 2. Fund Balances with Treasury.

A. Fund Balances (Dollars in Thousands)

	Entity Assets	Non-Entity <u>Assets</u>	<u>Total</u>
(1) Trust Funds	\$ 375,277	\$ -	\$ 375,277
(2) Revolving Funds	382,728	-	382,728
(3) Appropriated Funds	8,964,503	-	8,964,503
(4) Other Fund Types	317,763	(22,827)	<u>294,936</u>
Total	\$10.040,271	(22.827)	10,017,444

B. Fund Balances with Treasury are the aggregate amounts of the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. Other Fund Types (4) include Budget Clearing Accounts, which temporarily hold collections pending clearance to the applicable account, and Deposit Funds, which are established to record amounts held temporarily until ownership is determined. The negative balance for non-entity assets is primarily comprised of USCG deposit funds.

Note 3. Investments:

	Amounts for Balance Sheet Reporting						
		(Dollars in Thousands)					
A. Entity	Cost	Amortized (Premium) <u>Discount</u>	Market <u>Value</u>	Investments (Net)	Required Market Value <u>Disclosure</u>		
I. Intragovernmental Securities: (1) Marketable (2) Non-Marketable: Par Value (3) Non-Marketable: Market-Based Subtotal	\$ 72,792 7,611,769 <u>22,408,416</u> \$30,092,977	\$ 2,454 (59,684) <u>(2,269)</u> \$(59,499)	\$ - - <u>\$ -</u>	75,246 7,552,085 <u>22,406,147</u> \$30,033,478	\$		
Governmental Securities: (1) Private Corporation Stock Subtotal Total	\$ 27 \$ 27 \$ 30,093,004	\$ - \$ - \$(59,499)	\$ 106 \$ 106 \$ 106	\$ 27 \$ 27 \$ 30,033,505	\$ 106 \$ 106 \$ 106		
B. Non-Entity I. Intragovernmental Securities: (2) Non-Marketable: Par Value Total	\$ 863,428 \$ 863.428	\$ (9,325) \$ (9.325)	<u>\$ -</u> \$ -	\$ 854,103 \$ 854,103	<u>\$</u>		

C. Marketable Federal Securities can be bought and sold on the open market. Non-marketable par value Treasury securities are special series debt securities that Treasury issues to Federal entities at face value (par value). The securities are redeemed at face value upon maturity; thus, investing entities recover the full amount invested, plus interest. Non-marketable market-based Treasury securities are debt securities that Treasury issues to Federal entities without statutorily-determined interest rates. Although the securities are not marketable, their terms (prices and interest rates) mirror the terms of marketable Treasury securities. Amortization is done using the interest or straight-line method. Private corporation stock consists of common stock in USCG's Gift Fund. Non-Entity Investments consist of USCG Sports Fish Investments, which are part of the Aquatic Resources Trust Fund. Although this account is managed by the Department of Interior, DOT is responsible for preparing financial statements.

Note 4. Accounts Receivable:

(Dollars in Thousands)

A.	Entity:	,	Gross Amount <u>Due</u>	Unc	wance for ollectable mounts	ļ	Net Amount <u>Due</u>
	1. Intragovernmental:	\$	461,103	\$	-	\$	461,103
	2. Governmental:		192,569		89,127		103,442
	Total Entity Receivables	\$	653,672	\$	89,127	\$	564,545
В.	Non-Entity:						
	1. Governmental:		16,054		392		15,662
	Total Non-Entity Receivables	\$	16,054	\$	392	\$	15,662
	Total Receivables	\$	669,726	\$	89,519	\$	580,207
C.	Reconciliation of Uncollectible Amounts						
	Uncollectable Amounts:		Entity <u>Gov</u>			No	on-Entity <u>Gov</u>
	Beginning Balance Additions Reductions Ending Balance	\$	80,206 22,551 13,630 89,127			\$ \$	1,062 1,340 2,010 392

D. Allowance for Uncollectable Amounts is based on historical data or actual amounts that are determined to be uncollectable based upon review of individual receivables. Entity, Governmental, Accounts Receivable does not reflect the total amount billed for the massive oil spill caused by T/B Morris J. Berman in 1994. Although the USCG incurred costs of approximately \$83 million to clean up that spill, the USCG's policy on recognizing a receivable when the liability limit (per the Oil Pollution Act of 1990) applies is to record the lessor of incurred costs or the liability limit. The liability for this incident is \$10 million. Any subsequent receivable will be recognized if and when an additional liability is established. The Department of Justice, disagreeing with a previous Comptroller General decision, is of the opinion that Federal, state, and Indian tribe trustees may resume presenting natural resource damage claims against the Oil Spill Liability Trust Fund. This opinion, if adopted by the USCG, would expose the fund to thousands of natural resource damage claims. Claimants are expected to immediately resubmit a backlog of approximately 1,800 state resource damage and assessment claims against the fund that were previously denied. At this time, we have no basis for reasonably estimating the amount or timing of payments for such claims.

Note 5. Other Assets

(Dollars in Thousands)

A. Entity:

Intragovernmental: (1) Advances & Prepayments (2) Items on Loan (3) Undistributed Payments		\$ 257,907 142,860 131,764
,	Total	\$ 532.531
Governmental: (1) Advances & Prepayments (2) Right of Way Revolving Fund	Total	\$ 15,878
Non-Entity:		

В.

1. Intragovernmental:

(1) Undistributed Payments Total

C. Other Assets, Entity, Intragovernmental, are comprised of advance payments to other Federal Government entities for agency expenses not yet incurred and for goods or services not yet received, items on loan from other Government agencies, and undistributed payments (such as to the Department of Defense) for which DOT is awaiting documentation. Other Assets, Entity, Governmental, are comprised of advances to the public, including employees, for agency expenses not yet incurred and for FHWA's Right of Way Revolving Fund. Other Assets, Non-Entity, Intragovernmental, are comprised of undistributed payments (such as to the Department of Defense) for which DOT is awaiting documentation.

Note 6. Direct Loans and Loan Guarantees, Non-Federal Borrower:

- A. DOT operates the following loan or loan guarantee programs:
 - (1) Amtrak Corridor Improvement Program
 - (2) Railroad Rehabilitation Improvement Program
 - (3) Alameda Corridor Improvement Loan
 - (4) Small & Disadvantaged Business Utilization
 - (5) Aircraft Purchase Loan Guarantee Program
 - (6) Federal Ship Financing Fund (Title XI)
 - (7) Maritime Guaranteed Loan
- B. Direct Loans Obligated Prior to FY 1992 (Present Value Method):

(Dollars in Thousands)

Rec	ceivable,			Re I	alue of Assets elated to Direct Loans
\$	5,796 59,952	\$	1,76 <u>5</u>	\$	5,796 61,717 67,513
	Red (+ -,	Receivable, In Gross Rec \$ 5,796 \$ 59,952 \$	Receivable, Interest Gross Receivable \$ 5,796 \$ - 59,952 1,765	Loans Receivable, Interest Receivable \$ 5,796 \$ - \$ 59,952

C. Direct Loans Obligated After FY 1991:

			Allowance	Value of
			for Subsidy	Assets
	Loans		Cost	Related to
	Receivable,	Interest	(Present	Direct
<u>Loan Programs</u>	<u>Gross</u>	<u>Receivable</u>	Value)	<u>Loans</u>
(2) Railroad Rehabilitation	\$ 3,945	\$ 10	\$ (289)	\$ 3,666
(3) Alameda Corridor	140,000	325	(20,250)	120,075
(4) Small & Disadvantaged Business Utilization	2,115		(564)	1,551
Total	\$146,060	\$ 335	\$(21,103)	\$ 125,292

D. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method):

Loan Guarantee Programs	Gua L Red	faulted aranteed Loans ceivable, Gross	 erest eivable	F	llowance or Loan Losses	 eclosed	Gu	efaulted aranteed Loans ceivable, <u>Net</u>
(5) Aircraft Purchase Loan Guar	\$	531	\$ 251	\$	(337)	\$ _	\$	445
(6) Federal Ship Financing Fund Total	\$	35,188 35,719	\$ <u>-</u> 251	\$	(25,605) (25,942)	\$ 5,500 5,500	\$	15,083 15,528

E. Liability for Loan Guarantees (Estimated Future Default Claims, pre 1992):

	Liabilities for Losses	
	on Pre-1992	Total
	Guarantees,	Liabilties
	Estimated	for Loan
Loan Programs	Default Claims	<u>Guarantees</u>
(7) Maritime Guaranteed Loan Total	\$ 99,788 \$ 99,788	\$ 99,788 \$ 99,788
	Total Liabilities for Loan Guarantees	\$ 99,788

- F. Subsidy Expense for Post-1991 Direct Loans
 - 1. Current Year's Direct Loans

Loan Programs	 terest erential	<u>De</u>	<u>faults</u>	<u> </u>	ees	<u>I</u>	<u>otal</u>
(2) Railroad Rehabilitation	\$ -	\$	-	\$	8	\$	8
(3) Alameda Corridor	288		-		-		288
(4) Small & Disadvantaged Bus	 		200				200
Total	\$ 288	\$	200	\$	8	\$	496

2. Direct Loan Reestimates

Loan Programs	Reestimates
---------------	-------------

- (1) Amtrak Corridor Improvement Program \$ (517)
 - 3. Total Direct Loan Subsidy Expenses

Loan Programs

(4) Small & Disadvantaged Business Utilization \$ 200
Total \$ 200

G. Subsidy Expense for Post-1991 Loan Guarantees

1. Current Year's Loan Guarantees

Total Cash <u>Flows</u>

Loan Programs

(7) Maritime Guaranteed Loan Total

\$ 22,192 \$ 22,192

2. Total Loan Guarantee Subsidy Expenses

Loan Programs

(7) Maritime Guaranteed Loan Total

\$ 22,192 \$ 22,192

H. Administrative Expense:

Direct Loans

Loan Programs

(4) Small & Disadvantaged Business Utilization \$ 120 Total \$ 120

I. Direct loan obligations or loan guarantee commitments prior to FY1992, and the resulting direct loan or loan guarantees, are reported at the value of the outstanding loan. Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loan or loan guarantees, are governed by the Federal Credit Reform Act. The Act provides that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. Foreclosed property is valued at the net realizable value. Estimated liabilities for losses on pre-1992 loan guarantees are based on an analysis of subsidy amounts for individual loans.

Note 7. Cash, Foreign Currency and Other Monetary Assets

(Dollars in Thousands)

		-	Entity Assets
А. В.	Cash Other Monetary Assets	\$	6,940 156
	Total Cash and Other Monetary Assets Monetary Assets	\$	7,096

D. Cash consists of imprest fund balances (\$3,112) and moneys disbursed to participating banks which have not yet been loaned to borrowers, but which DOT has authority to withdraw (\$3,828). Other Monetary Assets consist of USCG Cadet Savings Accounts.

Note 8. Inventory and Related Property.

(Dollars in Thousands)

	Inventory Amount	Allowance for Losses	Inventory, <u>Net</u>
A. Inventory:			
(1) Inventory Held for Current Sale Total Inventory	\$ 44,564 \$ 44,564	\$ 152 \$ 152	\$ 44,412 \$ 44,412
	Operating Materials & Supplies <u>Amount</u>	Allowance for Losses	Operating Materials & Supplies, <u>Net</u>
B. Operating Materials and Supplies:			
 Items Held for Use Inventory Held in Reserve for Future Use Excess, Obsolete and Unserviceable Items Items Held for Repair Total Operating Materials & Supplies 	\$ 1,528,940 14,553 135,073 473,545 \$ 2,152,111	\$ - 28,314 151,085 \$ 179,399	\$ 1,528,940 14,553 106,759 322,460 \$ 1,972,712
Total Inventory and Related Property			\$ 2,017,124

C. All DOT inventories are in USCG. Valuation methods used include standard price/specific identification, weighted average, and last acquisition price. Inventories are to be consumed in accordance with USCG directives. DOT operating materials and supplies are in USCG, FAA, MARAD, and FHWA. Valuation methods used include last acquisition price/last repair cost, weighted average, and standard cost. The allowance is used to reduce operating materials and supplies held for repair to 35 percent of their original cost for FAA and 75 percent for USCG. The only restrictions on use are that USCG consumption must be in accordance with USCG Directives and FAA is not permitted to donate.

Note 9. Property, and Equipment, Net

(Dollars in Thousands)

	Depreciation Method*	Service <u>Life *</u>	Acquisition <u>Value</u>	Accumulated Depreciation	Net <u>Book Value</u>
Classes of Fixed Assets					
A. Land			\$167,234	\$0	\$167,234
B. Buildings and Structures	SL	Various	10,843,758	23,189	10,820,569
C. Furniture and Fixtures		Various	1,543	-	1,543
D. Equipment	SL	Various	5,024,039	39,575	4,984,464
E. ADP Software	SL	Various	6,102	1,449	4,653
F. Assets Under Capital Lease	SL	>20	179,848	83,807	96,041
G. Leasehold Improvements	SL	Various	23,149	656	22,493
H. Aircraft	SL	>20	1,753,689	59,313	1,694,376
 Ships and Vessels 		>20	3,919,529	7,481	3,912,048
J. Other Vehicles	SL	>20	9,766	202	9,564
K. Construction in Progress			4,458,918	-	4,458,918
L Other					
Small Boats		>20	95,051	-	95,051
Property Not in Use			151,905	-	151,905
Other Miscellaneous Property		Various	85,141	-	<u>85,141</u>
Total			<u>\$26,719,672</u>	<u>\$ 215,672</u>	<u>\$26,504,000</u>

M. DOT agencies have varying methods of determining the value of property and equipment and how it is depreciated. DOT currently has a provisional capitalization threshold of \$200,000 for structures and facilities, used only by USCG, and \$25,000 for other property, plant and equipment. Capitalization at lesser amounts is encouraged.

* Keys:

Depreciation Method

SL - Straight Line

Range of Service Life

1-5 - 1 to 5 years 6-10 - 6 to 10 years 11-20 - 11 to 20 years >20 - Over 20 years

Note 10. Debt:

A. Debt Covered by Budgetary Resources

(Dollars in Thousands)

		eginning Balance	<u>B</u>	Net orrowing	<u> </u>	Ending Balance
 Debt to the Treasury Debt to the Federal Financing Bank Total Intragovernmental Debt 	\$ <u>\$</u>	125,043 4,062 129,105	\$ \$	68,926 (117) 68,809	\$ <u>\$</u>	193,969 3,945 197,914
B. Debt Not Covered by Budgetary Resources						
Debt to the Treasury Total Intragovernmental Debt	<u>\$</u> \$	21 21	<u>\$</u> \$	<u>-</u>	<u>\$</u> \$	21 21

C. Net Borrowing indicates current year activity. Debt to the Treasury Covered by Budgetary Resources is for an FRA guaranteed loan with Missouri-Kansas-Texas Railroad and for OST direct loans in the Short Term Lending Program administered by the Office of Small and Disadvantaged Business Utilization. Debt to the Federal Financing Bank is for FRA direct loans with Southern Pacific for the Amtrak Corridor Program. Debt to the Treasury Not Covered by Budgetary Resources is for the FAA Aircraft Purchase Loan Guarantee Program. FHWA direct loans for the High Priority Corridor Program were repaid in FY 1997.

Note 11. Other Liabilities:

(Dollars in Thousands)

A.	Other Liabilities Covered by Budgetary
	D

Resources:			
	Non-Current	Current	
	Liabilities	Liabilities	Total
Intragovernmental		A 400.00=	
(1) Advances and Prepayments from Others	\$ 11,168	\$ 186,965	\$ 198,133
(2) Deposit Funds	-	42	42
(3) Accrued Pay & Benefits to Other Agencies	99	114,839	114,938
(4) Undistributed Collections	-	15,823	15,823
(5) Items on Loan	-	143,403	143,403
(6) Other Accrued Liabilities	12	5,020	5,032
Total	<u>\$ 11.279</u>	<u>\$ 466.092</u>	<u>\$ 477.371</u>
2. Governmental			
(1) Advances and Prepayments from Others	\$ 447	\$ 6,231	\$ 6,678
(2) Deposit Funds	Ψ ++1	656	φ 0,070 656
(3) Accrued Pay & Benefits to the Public	735	219,330	220,065
(4) Undistributed Collections	19	11,669	11,688
(5) Unbilled State Boat Safety Grants	-	17,773	17,773
(6) Unbilled Expenses from the Public	_	22,791	22,791
(7) Union Station Mortgage	_	7,940	7,940
(8) Oil Spill Liability Trust Fund Settlement	_	829	829
(9) Other Accrued Liabilities	_	2,075	2,075
Total	\$ 1.201	\$ 289.294	\$ 290,495
Total	<u> </u>	Ψ 200,201	<u>v 200, 100</u>
B. Other Liabilities Not Covered by Budgetary			
Resources:			
	Non-Current	Current	
	Liabilities	Liabilities	Total
Intragovernmental		·	
(1) FECA Accrued Liabilities	\$ 111,341	\$ 89,497	\$ 200,838
(2) FECA Actuarial Liabilities	965,954	172,651	1,138,605
(3) Accrued Pay & Benefits to Other Agencies	-	3,968	3,968
(4) Environmental Remediation and Cleanup	-	52,644	52,644
(5) Undistributed Collections	-	10,635	10,635
(6) Other Accrued Liabilities			
Total	<u>\$ 1.077.295</u>	\$ 329.395	<u>\$ 1.406.690</u>
2. Governmental	ф 040 00 5	Ф 7 4.00 7	Ф 404.000
(1) Accrued Pay & Benefits to the Public	\$ 346,905	\$ 74,997	\$ 421,902
(2) Environmental Remediation and Cleanup	981,600	(20,900)	960,700
(3) Contingent Liabilities	352,505	127,296	479,801
(4) Military Benefits	-	258,654	258,654
(5) Unadjudicated Legal Claims(6) Undistributed Collections	2 EGO	7,558	7,558
	3,569	- 4 200	3,569
(7) Air Traffic Control at Closed Bases Total	900 \$ 1,685,479	1,300 \$ 448,905	2,200 \$ 2,134,384
i Uldi	φ 1,000,479	φ 440,903	<u>\$ 2,134,384</u>

C. Accrued pay and benefits pertain to unpaid pay period September 14-30, 1997. Undistributed Collections represent liabilities pending transfer to Treasury. Intragovernmental environmental remediation and cleanup are for USCG sites with contaminated soil and/or ground water which resulted from leaking underground storage tanks used to store petroleum products or hazardous materials. Governmental environmental remediation and cleanup include environmental cleanup; the fuel storage tank program; environmental occupational safety and health compliance; and energy conservation. Contingent Liabilities are for FAA legal claims which are asserted or unasserted, but probable of assertion, and for the FAA Return Rights Program. Air Traffic Control at Closed Bases reflects FAA's liability for its responsibility to continue providing priority Air Traffic Control functions for civilian users of certain DOD bases scheduled for closure.

Agency expenses for payments made under the Federal Employees Compensation Act (FECA) are forwarded to the Department of Labor (DOL). Funding for FECA is normally appropriated to agencies in the fiscal year two years subsequent to the actual FECA billing from DOL. FECA actuarial liability estimates are generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases projected for 37 years. The liability is determined using a method that utilizes historical benefit payments patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value. Interest rate assumptions utilized for discounting were as follows:

1997

6.24% in year 1,	6.21% in year 1,
5.82% in year 2,	5.97% in year 2,
5.60% in year 3,	5.60% in year 3,
5.45% in year 4,	5.32% in year 4,
5.40% in year 5,	5.15% in year 5,
and 5.10% thereafter	and 5.10% thereafter

1996

Note 12. Leases

A. ENTITY AS LESSEE:

(Dollars in Thousands)

Capital Leases:

Summary of Assets Under Capital Lease (by category):

(1) Land and Buildings	\$ '	179,848
(2) Machinery and Equipment	\$	-
(3) Other	\$	-
(4) Accumulated Amortization	\$	83,807

Description of Lease Arrangements: Capital leases cover land and buildings at FAA's Mike Monroney Aeronautical Center (MMAC) in Oklahoma City, Oklahoma, and at the William J. Hughes Technical Center (WJHTC) located in Pomona, New Jersey. FAA leases the MMAC land and buildings from the Oklahoma City Airport Trust for \$12 million per year. FAA leases various real property, including the WJHTC technical building, from the Atlantic County Improvement Authority for \$4.8 million per year. FAA's capital lease payments are funded annually.

Future Payments Due:

r ataro r ayrnonto bao.				
			Asset Category	
Fiscal Year		(1)		Totals
Year 1 (1998)	\$	16,703		\$ 16,703
Year 2 (1999)		16,160		16,160
Year 3 (2000)		12,422		12,422
Year 4 (2001)		11,218		11,218
Year 5 (2002)		11,218		11,218
After 5 Years (2003+)		86,640		86,640
Total Future Lease				
Payments	\$	154,361		\$154,361
Less: Imputed Interest		(52,571)		(52,571)
Assets Held by Others		(134)		(134)
Net Capital Lease				
Liability	<u>\$</u>	101,656		<u>\$101,656</u>
Liabilities Not Covered by	Budg	etary Reso	urces	<u>\$101,656</u>

Operating Leases:

Description of Lease Arrangements: Operating leases cover USCG leases for real property with lease terms up to 20 years and FAA leases for property, aircraft, equipment, and telecommunications which are funded and expensed annually.

Future Payments Due:

		<u>Asse</u>	t Catego	<u>ry</u>		
Fiscal Year	 (1)		(2)		(3)	Totals
Year 1 (1998)	\$ 35,503	\$	2,246	\$	192	\$ 37,941
Year 2 (1999)	30,434		1,937		622	32,993
Year 3 (2000)	25,125		1,946		624	27,695
Year 4 (2001)	20,852		212		619	21,683
Year 5 (2002)	15,885		218		614	16,717
After 5 Years (2003+)	 43,590		3,834		161	47,585
Total Future Lease						
Payments	\$ 171,389	\$	10,393	\$	2,832	<u>\$184,614</u>

B. ENTITY AS LESSOR:

Operating Leases:

Description of Lease Arrangements FAA leases Washington National and Washingto Dulles International Airports to the Metropolitan Washington Airports Authority, the airports' sponsor. The lease took effect in March 1987 for \$3 million per year for a 50-year term. Upon lease expiration, the airports and facilities, originally valued at \$244 million, together with any improvements thereto, will revert to the Federal Government. In addition, FAA leases equipment to foreign governments and leases parcels of Government-owned land, generally for agriculture. Operating leases also include RSPA's lease of the Transportation Safety Institute North Campus which will expire in April 1998.

Future Projected Receipts:

		Asset	Category	
Fiscal Year	(1)		(2)	Totals
Year 1 (1998)	\$ 4,714	\$	90	\$ 4,804
Year 2 (1999)	4,800		90	4,890
Year 3 (2000)	5,010		90	5,100
Year 4 (2001)	5,238		90	5,328
Year 5 (2002)	6,121		90	6,211
After 5 Years (2003+)	 197,874		<u>-</u>	<u>197,874</u>
Total Future Operating Lease Receivables	\$ 223,757	<u>\$</u>	<u>450</u>	<u>\$224,207</u>

Note 13. Pensions, Other Retirement Benefits and Other Post-Employment Benefits

(Dollars in Thousands)

A. Not Covered by Budgetary Resources

Value of Projected Plan Benefits

1. Pensions:

USCG Retired Pay \$ 12,358,600

2. Other Retirement Benefits:

USCG Military Health Care 1,623,509

Total \$ 13,982,109

B. Other Information: The actuarial liability of the USCG Retired Pay Fund and USCG Military Health Care is the present value of projected plan benefits based on information provided by the USCG Commandant.

Note 14. Unexpended Appropriations

(Dollars in Thousands)

A. Unexpended Appropriations

(1) Unobligateda. Availableb. Unavailable(2) Undelivered OrdersTotal

218,577 7,113,668 9,108,694

\$ 1,776,449

B. Highway Trust Fund unexpended appropriations in each individual program expenditure account, when combined with the Corpus Highway Trust Fund, reflect a zero balance through elimination. The cumulative effect of tax receipts credited to the Highway Trust Fund exceeding the cumulative transfers out to each program account through FY 1997 results in cumulative results of operations of \$22.2 billion.

Note 15. Taxes:

(Dollars in Thousands)

	FY 1997
A. Excise and Other Taxes:	
Gasoline, Fuel, Tires, etc.	\$ 23,867,000
Passenger Ticket Taxes	3,549,042
Aquatic Resources Trust Fund Taxes	346,809
Way Bill Taxes	346,731
International Departure Taxes	202,883
Airway Fuel Taxes	133,720
Oil Spill Liability Taxes	 600
Total Tax Revenues	\$ 28,446,785

B. Taxes are collected by the Department of the Treasury (Treasury) Internal Revenue Service for DOT's Highway Trust Fund, the Airport and Airway Trust Fund, the Aquatic Resources Trust Fund, and the Oil Spill Liability Trust Fund. These taxes can be withdrawn only as authorized by various DOT appropriations. The amounts reflected above are net taxes reported to DOT by Treasury, and have been reduced for transfers and refunds. Treasury estimates taxes to be collected each quarter and adjusts the estimates by actual collections. The adjustment for actual collections lags about six months after the estimate. Historically there has been a large variance between the estimate and actual. Therefore, a more precise determination of tax collections as of September 30, 1997, won't be available until March 1998.

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Note 16. Other Revenue and Financing Sources

(Dollars in Thousands)

	FY 1997
 A. Other Revenue and Financing Sources: (1) Transfer of Funds from HTF Share of Transit Program Account (2) Imputed Financing (3) Transfers from NHTSA Operations and Research (4) FAA Revenue Credited 	\$1,659,185 529,110 85,680 38,021
(5) MARAD Revenue Credited	20,371
(6) USCG Revenue Credited	7,249
(7) Other Miscellaneous	<u>6,867</u>
Totals	\$2,346,483

B. Imputed Financing is the amount of expenses paid on DOT's behalf by other agencies, such as the Office of Personnel Management for employee pensions and other post-retirement benefits and the Department of Justice for agency claims paid by the Judgment Fund. FAA revenue credited includes amounts credited to operations and to miscellaneous receipts. MARAD revenue credited includes amounts to the Gift Fund, Operations and Training Fund, Vessel Operation Revolving Fund, Federal Ship Financing Fund, and Maritime Guaranteed Loans. USCG revenue credited includes reimbursements to the Cadet Fund.

Note 17. Program or Operating Expenses:

(Dollars In Thousands)

	FY 1997
A. Operating Expenses by Major Program:	
(1) Federal Aid Highways	\$ 20,591,937
(2) FAA Operations	5,141,260
(3) USCG Programs	3,542,617
(4) FTA Formula Grants	2,206,949
(5) FTA Discretionary	2,000,987
(6) FAA Grants In Aid	1,485,384
(7) FAA Facilities & Equipment	656,286
(8) FRA Grants	612,784
(9) Northeast Corridor	366,461
(10) Other Highway Programs	275,736
(11) Washington Metro Area Transit Authority	214,048
(12) FAA Research, Engineering & Development	201,113
(13) NHTSA Trust Fund	174,065
(14) NHTSA Operations & Research	154,978
(15) Other Highway Trust Fund Programs	143,904
(16) Transit Planning & Research	91,020
(17) MARAD Operations & Training	90,835
(18) GSA Rent/Delegation	89,769
(19) MARAD Operating Differential Subsidy	72,322
(20) Other Research and Special Programs Administration Programs	64,099
(21) Volpe National Transportation System Center	63,119
(22) Office of the Secretary	58,021
(23) FRA Trainsets	49,500
(24) FTA Administration	46,170
(25) FRA Railroad Safety	44,350
(26) Maritime Security Program	38,104
(27) Inspector General	37,265
(28) MARAD Title XI Loan Guarantee Program	35,211
(29) Other FRA Programs	29,694
(30) MARAD Ocean Freight Differential	24,611
(31) Payments to Air Carriers	23,573
(32) FRA Railroad Research	22,481
(33) FRA Alameda Corridor	20,538
(34) MARAD Ready Reserve Force	17,069
(35) FTA Interstate Transfer Grants-Transit	17,018
(36) Surface Transportation Board	14,134
(37) Transportation Administrative Service Center (TASC)	11,980
(38) FRA High Speed Rail	11,871
(39) Miscellaneous Transportation Programs	40,343
Totals	\$ 38,781,606

B. DOT Programs are described in detail in the Departmental Overview Section. To prohibit duplicate entries and properly reflect actual revenues and expenses, intra-Departmental transactions were identified and eliminated from Departmental balances.

Note 18. Other Expenses

(Dollars in Thousands)

	FY 1997
A. Other Expenses:	
(1) Increase in Federal Employees Compensation Act	\$ 173,390
(2) Increase FAA's Contingent Liabilities for Claims	117,746
(3) Imputed Costs	49,084
(4) FAA Loss on Fixed Assets	31,124
(5) FAA Loss on Operating Materials & Supplies	13,415
(6) MARAD Operating & Training	18,994
(7) Other Miscellaneous	 2,378
Total	\$ 406,131

B. Imputed Costs are the amount of expenses paid on DOT's behalf by other agencies, such as the Office of Personnel Management for employee pensions and other post-retirement benefits.

Note 19. Prior Period Adjustments

(Dollars in Thousands)

	FY 1997
A. Prior Period Adjustments:	
(1) HTF Adjustments	\$31,806,257
(2) FAA Adjustments	3,149,166
(3) USCG Aquatic Resources Trust Fund Beginning Balance	745,472
(4) USCG Property Adjustments	497,499
(5) VNTSC Adjustments	(27,290)
(6) NHTSA Adjustments	9,739
(7) Other Miscellaneous	(2,350)
Total	\$36,178,493

B. HTF adjustments were due to a policy change for reporting unfunded obligated contract authority as a liability for FY 1996 reporting. FAA adjustments include write-off of fixed assets, write-up of operating materials and supplies based on physical counts, capital expenditures incorrectly expensed in prior years, and a prior period credit incorrectly recorded as current year. The USCG Acquatic Resources Trust Fund Beginning Balance reflects amounts for that trust fund brought into DOT's net position. VNTSC adjustments include prior year building and equipment adjustments. NHTSA adjustments include reclassification of proprietary accounts.

Note 20. Non-Operating Changes:

	(Dollars in Thousand	
		FY 1997
A. Increases: (1) Transfers-In (A) USCG Transfers-In (B) Other Transfers-In	\$	114,913 95,507
(2) Donations Received		10,922
 (3) Other Increases (A) FAA Increases (B) USCG Change in Unfunded Military Pension Plan Liability (C) USCG Change in Unfunded Health Care Liability (D) Other USCG Increases (E) Other Increases 		5,353,449 1,908,900 1,876,491 874,842 501,516
(4) Total Increases	\$	10,736,540
B. Decreases: (1) Transfers-Out (A) USCG Transfers Out (B) HTF Transfers Out (C) Other Transfers Out	\$	(171,167) (117,688) (104,055)
(2) Donations		(31)
(3) Other Decreases(A) FAA Decreases(B) USCG Decreases(C) MARAD Decreases(D) Other Decreases		(4,428,990) (1,386,822) (753,316) (386,205)
(4) Total Decreases	\$	(7,348,274)
C. Net Non-Operating Changes	\$	3,388,266

Note 21. Contingencies:

<u>Legal Proceedings</u> FAA recognized contingent liabilities of \$438.2 million for certain claims. This represents an increase in the amount of \$117.7 million from FY 1996. Such claims are those that have been brought to the attention of the FAA Office of Chief Counsel (OCC) and that (1) have been asserted, or, if not yet asserted, in the opinion of the OCC are more likely to be asserted than not; (2) in the opinion of the OCC are more likely to be paid than not; and (3) for which the OCC can estimate the probable payment. The maximum exposure associated with such claims for FAA is \$81 billion.

There are 88 claims pending against the USCG with a potential liability of approximately \$42.2 million. In addition, there are 12 claims pending in Federal Courts which could have a potential liability of up to \$1.8 million. Neither the prospects of settling these cases nor the amounts of the settlements can be predicted.

There are five legal actions against the OIG pending before the Equal Employment Opportunity Commission. These actions could result in an estimated maximum potential liability of \$200,000, attributable to OIG appropriations. There are two legal actions pending before the U. S. District Court which could result in an additional potential liability of \$200,000. The liability in these cases is attributable to the permanent indefinite appropriation for judgments, awards, and compromise settlements established under 31 U.S.C. 1304, known as the "Judgment Fund."

Return Rights Program. FAA contingent liabilities for the Return Rights Program increased by \$9.6 million from \$32 million in FY 1996 to \$41.5 million in FY 1997. The program covers temporary assignments for 2 to 4 years. At the beginning of FY 1997, approximately 1,058 employees who previously had accepted transfers to overseas or certain domestic locations were contractually entitled to a future return move at Government expense. The typical cost per move is \$50,000. The liability may be overstated because not every employee remaining in the program will exercise his or her rights. If every employee in the program did exercise his or her rights, the liability would be as follows:

FY 1998	\$ 9,600,000
FY 1999	11,200,000
FY 2000	8,500,000
FY 2001	12,250,000
	\$41,550,000

<u>Aviation Insurance Program</u>. FAA may issue aircraft hull and liability insurance under the Aviation Insurance Program for certain air carrier operations. FAA's authority to issue insurance is limited to situations where commercial insurance is not available on fair and reasonable terms and where the operation to be insured is necessary to carry out the U.S. Government's foreign policy. No claims for losses were pending as of September 30, 1997.

The categories of insurance issued by FAA are: (1) premium insurance, for which a risk-based premium is charged to the air carrier; and (2) non-premium insurance. Non-premium insurance, which represented all of the insurance issued by FAA in FY 1997, is issued for air carrier operations under contract to or on behalf of a U.S. Government agency, provided that the agency has an agreement with FAA to indemnify FAA against all losses covered by the insurance. FAA maintains standby non-premium war-risk insurance policies for 48 air carriers having approximately 936 aircraft available for Defense or State Department charter operations.

FAA normally insures only a small number of air carrier operations at any time. Airspace and airport capacity in areas where FAA insurance coverage would apply is usually very limited, so that FAA expects to be able to terminate insurance coverage and/or insured air carrier operations in high-risk areas after the loss of no more than two aircraft. Thus, probably no more than two FAA-insured aircraft could be lost before the FAA exercises its regulatory authority to stop flights to the area of loss. FAA establishes maximum liability for losing one insured aircraft at the limit of commercial insurance that applied to that aircraft before FAA issued its insurance. This liability covers third party losses. In many cases, FAA's maximum liability is \$1 billion; usually it is less. Assuming a loss of not more than two aircraft per year, the maximum expected insurance liability for any year would be \$2 billion. Since inception of the program (including the predecessor, the Aviation War Risk Insurance Program, dating back to 1951), only four claims, ranging from \$626 to \$122,469, have been paid.

<u>Canceled Appropriations</u> Under 31 U.S.C. 1552(a), an appropriation account which was available for obligation for a definite period is closed for all purposes at the end of the fifth fiscal year after its period of availability for obligation has expired. All obligated and unobligated balances in the account are then canceled. Under 31 U.S.C. 1553(b)(1), as implemented by OMB Circular No. A-34, after an appropriation is closed, any obligations or adjustments to obligations that would have been properly chargeable to that appropriation may be paid from an unexpired appropriation that is available for the same purpose. A single cumulative limit of no more than 1 percent of an unexpired appropriation may be used to pay any combination of obligations relating to closed accounts.

On September 30, 1997, FAA canceled undelivered orders (i.e., obligations) for closed appropriations in the amount of \$29 million for operations and \$12 million for Facilities and Equipment.

<u>USCG Environmental Cleanup and Restoration</u> In addition to a probable liability of \$52.6 recognized in the financial statement for cleanup of contaminated USCG sites, there is a potential liability for cleanup of a contaminated site at Annette Island, Alaska, formerly used by the USCG and other Federal agencies. Negotiations are in process and no court action has been filed. USCG liability of up to \$3 million is possible.

Oil Spill Liability Trust Fund: This fund exists for the purpose of paying claims relating to oil spills. At the end of FY 1997, 914 claims were pending against the fund for a total of approximately \$32 million. Although a large portion of these claims will probably be paid, neither the number nor the amount of the settlements can be predicted.

Three additional claims against the fund are pending in Federal Court, for a total of \$6.7 million. All of these are being contested by USCG. However, in one of these cases the trial court has found for the claimant, implying a fund liability of \$829,000 which has been recognized in the financial statement. A further claim of \$178,000 for attorney's fees pends decision. This case is on appeal. The outcome of these three cases can not be predicted.

Subsequent Events On January 30, 1998, the United States Court of Appeals for the District of Columbia issued its opinion on the petition filed by Asiana Airlines, ET AL vs. FAA and Acting Administrator. Petitioners challenged an FAA Interim Final Rule imposing annual fees on flights that neither take off or land in the U.S. The court rejected petitioners claims that FAA acted unlawfully in employing an expedited procedure which precluded a round of notice and comment before the effective date of the Rule and that the regulation violated the anti-discrimination provisions of various international aviation agreements. However, the court concluded that FAA's allocation of fixed and common costs using a value-oriented "Ramsey pricing" methodology did violate the statutory directive that the fees for overflights be directly related to the agency's cost of providing services. This ruling may result in the return of \$11.7 million of collected fees to the airlines and a decrease in FAA's assets of \$25.2 million due to the reversal of Governmental Accounts Receivable.

Note 22. Saint Lawrence Seaway Development Corporation:

Condensed FY 1997 Information:	(Dollars	in Thousands)
Cash and Time Deposits Accounts Receivable Inventories Property, Plant and Equipment Deferred Charges Other Assets	\$	13,457 150 275 87,433 1,778 571
TOTAL ASSETS	\$	103,664

SECTION III SUPPLEMENTAL INFORMATION

U.S. Department of Transportation Consolidated Balance Sheet

As of September 30, 1997 (Dollars in Thousands)

Assets	HTF	FAA	USCG	All Other	(Eliminations)	1997 DOT Total
Entity Assets:						
Intragovernmental Assets:						
Fund Balance with Treasury	\$76,278	\$989,910	\$1,533,791	\$7,457,666	(\$17,374)	\$10,040,271
Investments	22,340,630	6,425,961	1,191,640	75,247	0	30,033,478
Accounts Receivable, Net	13,684	121,684	94,600	246,962	(15,827)	461,103
Interest Receivable, (Net)	297,760	98,455	1,517	0	0	397,732
Other Assets	10,057	181,144	271,146	97,130	(26,946)	532,531
Governmental Assets:						
Investments	0	0	27	0	0	27
Accounts Receivable, Net	5,244	43,571	44,868	9,759	0	103,442
Interest Receivable, (Net)	0	0	0	207	0	207
Credit Program Receivables and						
Related Foreclosed Property, Net	0	445	0	207,888	0	208,333
Cash and Other Monetary Assets	0	10	3,249	3,837	0	7,096
Inventory and Related Property, Net	500	763,670	949,638	303,316	0	2,017,124
Property Plant & Equipment, Net	39,799	11,644,489	13,639,926	1,179,786	0	26,504,000
Other Assets	186,374	2,684	9,804	1,272	0	200,134
Total Entity Assets	\$22,970,326	\$20,272,023	\$17,740,206	\$9,583,070	(\$60,147)	\$70,505,478
Non-Entity Assets:						
Intragovernmental:						
Fund Balance with Treasury	\$0	\$0	(\$22,858)	\$31	\$0	(\$22,827)
Investments	0	0	854,103	0	0	854,103
Interest Receivable, (Net)	0	0	11,155	0	0	11,155
Other Assets	0	0	24,304	0	0	24,304
Governmental Assets:						
Accounts Receivable, Net	0	0	11,216	4,446	0	15,662
Total Non-Entity Assets	\$0	\$0	\$877,920	\$4,477	\$0	\$882,397
Total Assets	\$22,970,326	\$20,272,023	\$18,618,126	\$9,587,547	(\$60,147)	\$71,387,875

U.S. Department of Transportation Consolidated Balance Sheet As of September 30, 1997 (Dollars in Thousands)

	HTF	FAA	USCG	All Other	(Eliminations)	1997 DOT Total
Liabilities						
Liabilities Covered by						
Budgetary Resources:						
Intragovernmental Liabilities:						
Accounts Payable	\$2,839	\$267,284	\$69,252	\$10,738	(\$4,482)	\$345,631
Debt	0	0	0	197,914	0	197,914
Interest Payable	0	0	0	179	0	179
Other Intragovernmental Liabilities	4,903	105,922	200,648	211,447	(45,549)	477,371
Governmental Liabilities:						
Accounts Payable	704,721	522,704	155,294	205,796	0	1,588,515
Liabilities for Loan Guarantees	0	0	0	99,788	0	99,788
Other Governmental Liabilities	8,989	112,114	117,801	51,591	0	290,495
Total Liabilities Covered by						
Budgetary Resources	\$721,452	\$1,008,024	\$542,995	\$777,453	(\$50,031)	\$2,999,893
Liabilities Not Covered by						
Budgetary Resources:						
Intragovernmental Liabilities:						
Accounts Payable	\$0	\$0	\$0	\$1,425	\$0	\$1,425
Debt	0	21	0	0	0	21
Other Intragovernmental Liabilities	16,126	1,173,131	150,813	66,620	0	1,406,690
Governmental Liabilities:						
Lease Liabilities	0	101,656	0	0	0	101,656
Pensions, Other Retirement Benefit and						
Other Post-Employment Benefits	0	0	13,982,109	0	0	13,982,109
Other Governmental Liabilities	25,701	1,786,974	290,416	31,293	0	2,134,384
Total Liabilities Not Covered by						
Budgetary Resources	\$41,827	\$3,061,782	\$14,423,338	\$99,338	\$0	\$17,626,285
Total Liabilities	\$763,279	\$4,069,806	\$14,966,333	\$876,791	(\$50,031)	\$20,626,178
Net Decition						
Net Position						
Balances						
Unexpended Appropriations	\$3,308,185	\$368,690	\$1,417,331	\$7,352,809	(\$3,338,321)	\$9,108,694
Cumulative Results of Operations	18,898,862	15,833,527	2,234,462	1,357,947	3,328,205	41,653,003
Total Net Position	\$22,207,047	\$16,202,217	\$3,651,793	\$8,710,756	(\$10,116)	\$50,761,697
Total Liabilities and Net Position	\$22,970,326	\$20,272,023	\$18,618,126	\$9,587,547	(\$60,147)	\$71,387,875

U.S. Department of Transportation Consolidated Balance Sheet As of September 30, 1997 (Dollars in Thousands)

	<u>HTF</u>	FAA	USCG	All Other	(Eliminations)	1997 DOT Total
Liabilities						
Liabilities Covered by						
Budgetary Resources:						
Intragovernmental Liabilities:						
Accounts Payable	\$2,839	\$267,284	\$69,252	\$10,738	(\$4,482)	\$345,631
Debt	0	0	0	197,914	0	197,914
Interest Payable	0	0	0	179	0	179
Other Intragovernmental Liabilities	4,903	105,922	200,648	211,447	(45,549)	477,371
Governmental Liabilities:						
Accounts Payable	704,721	522,704	155,294	205,796	0	1,588,515
Liabilities for Loan Guarantees	0	0	0	99,788	0	99,788
Other Governmental Liabilities Total Liabilities Covered by	8,989	112,114	117,801	51,591	0	290,495
	A=0.4.450	******	A.	A 150	(050.004)	*****
Budgetary Resources	\$721,452	\$1,008,024	\$542,995	\$777,453	(\$50,031)	\$2,999,893
Liabilities Not Covered by						
Budgetary Resources:						
0 ,						
Intragovernmental Liabilities:	**	**	**	64 40 5	**	\$4.40 F
Accounts Payable	\$0 0	\$0	\$0	\$1,425	\$0	\$1,425
Debt	· ·	21	0	0	0	21
Other Intragovernmental Liabilities Governmental Liabilities:	16,126	1,173,131	150,813	66,620	0	1,406,690
Lease Liabilities	0	101,656	0	0	0	101,656
Pensions, Other Retirement Benefit and						
Other Post-Employment Benefits	0	0	13,982,109	0	0	13,982,109
Other Governmental Liabilities	25,701	1,786,974	290,416	31,293	0	2,134,384
Total Liabilities Not Covered by	·					
Budgetary Resources	\$41,827	\$3,061,782	\$14,423,338	\$99,338	\$0	\$17,626,285
Total Liabilities	\$763,279	\$4,069,806	\$14,966,333	\$876,791	(\$50,031)	\$20,626,178
Net Position						
Balances						
Unexpended Appropriations	\$3,308,185	\$368,690	\$1,417,331	\$7,352,809	(\$3,338,321)	\$9,108,694
Cumulative Results of Operations	18,898,862	15,833,527	2,234,462	1,357,947	3,328,205	41,653,003
Total Net Position	\$22,207,047	\$16,202,217	\$3,651,793	\$8,710,756	(\$10,116)	\$50,761,697
Total Liabilities and Net Position	\$22,970,326	\$20,272,023	\$18,618,126	\$9,587,547	(\$60,147)	\$71,387,875

U.S. Department of Transportation Consolidated Statement of Operations For the Period Ended September 30, 1997 (Dollars in Thousands)

	<u>HTF</u>	<u>FAA</u>	USCG	All Other	(Eliminations)	1997 DOT Total
Revenues and						
Financing Sources						
Appropriated Capital Used	\$22,892,547	\$3,233,355	\$3,676,134	\$3,084,845	(\$23,049,561)	\$9,837,320
Revenues from Sales of Goods and Services	V 22,002,0	40,200,000	40,0:0,:0 :	40,00 .,0 .0	(420,0 .0,00 .)	40,001,020
To the Public	28,305	50,585	49,251	8,119	0	136,260
Intragovernmental	28,449	25,651	128,174	933,600	(370,952)	744,922
Interest and Penalties, Non-Federal	0	3,585	20,505	1,572	0	25,662
Interest, Federal	1,451,246	458,746	115,544	8,526	0	2,034,062
Taxes (Note 15)	23,867,000	4,232,376	347,409	0	0	28,446,785
Other Revenues and Financing Sources (Note 16) Less: Taxes and Receipts Transferred	23,507	445,418	32,899	1,845,414	(755)	2,346,483
to the Treasury or Other Agencies	(24,491,368)	(1,897,811)	(273,209)	(56,897)	22,892,547	(3,826,738)
Total Revenues and						
Financing Sources	\$23,799,686	\$6,551,905	\$4,096,707	\$5,825,179	(\$528,721)	\$39,744,756
Expenses						
Program or Operating Expenses (Note 17) Cost of Goods Sold	\$22,918,765	\$7,576,903	\$3,542,617	\$5,233,024	(\$489,703)	\$38,781,606
To the Public	0	40,117	10,076	4,671	0	54,864
Intragovernmental	48,537	42,554	127,317	591,204	(119,180)	690,432
Depreciation and Amortization	1,119	16,183	2,392	6,025	0	25,719
Bad Debts and Writeoffs	23	1,813	18,157	768	0	20,761
Interest						
Federal Financing Bank/Treasury	0	0	0	1.005	0	1 005
Borrowing Other	263	8,516	9	1,005 55	0	1,005 8,843
Other Expenses (Note 18)	1,460	334,936	25,650	44,840	(755)	406,131
Total Expenses	\$22,970,167	\$8,021,022	\$3,726,218	\$5,881,592	(\$609,638)	\$39,989,361
Total Expenses	\$22,970,107	\$0,UZ1,UZZ	\$3,720,210	\$5,001,592	(\$609,636)	\$39,969,361
Excess (Shortage) of Revenues and Financing Sources Over Total Expenses						
Before Extraordinary Items	829,519	(1,469,117)	370,489	(56,413)	80.917	(244,605)
Excess (Shortage) of Revenues	,.	(, , ,	,	(, -,		(,,,,,
and Financing Sources						
Over Total Expenses	\$829,519	(\$1,469,117)	\$370,489	(\$56,413)	\$80,917	(\$244,605)
Change in						
Net Position						
Net Position, Beginning Balance, as						
Previously Stated	(\$10,311,041)	\$13,506,513	(\$1,177,043)	\$9,437,442	(\$16,328)	\$11,439,543
Adjustments (Note 19)	31,806,257	3,149,166	1,242,971	(18,514)	(1,387)	36,178,493
Net Position, Beginning Balance, as						
Restated	\$21,495,216	\$16,655,679	\$65,928	\$9,418,928	(\$17,715)	\$47,618,036
Excess (Shortage) of Revenues and	000 540	(4.400.447)	270 402	(EC 440)	00.047	(244.005)
Financing Sources Over Total Expenses	829,519	(1,469,117)	370,489	(56,413)	80,917	(244,605)
Plus (Minus) Non Operating Changes (Note 20)	(117,688)	1,015,655	3,215,376	(651,759)	(73,318)	3,388,266
Net Position, Ending Balance	\$22,207,047	\$16,202,217	\$3,651,793	\$8,710,756	(\$10,116)	\$50,761,697

U.S. Department of Transportation Consolidated Statement of Budgetary Resources

As of September 30, 1997 (Dollars in Thousands)

	1997 DOT Total
Budgetary Resources:	
Budget Authority (Line 1)	\$42,045,091
Unobligated Balances - Beginning	
of Period (Line 2)	46,054,582
Spending Authority From Offsetting	
Collections (Line 3)	4,613,040
Adjustments (Lines 4-6)	(10,662,753)
Total Budgetary Resources (Line 7)	\$82,049,960
Status of Budgetary Resources:	
Obligations Incurred (Line 8)	\$44,784,912
Unobligated Balances-Available (Line 9)	13,331,230
Unobligated Balances-Not Available (Line 10)	23,933,818
Total, Status of Budgetary Resources (Line 11)	\$82,049,960
Outlays:	
Obligations Incurred (Line 8)	\$44,784,912
Less: Spending Authority From Offsetting	
Collections and Adjustments	
(Lines 3A, B, D, & 4A)	(4,885,520)
Obligated Balance, Net Beginning of Period (Line 12)	48,024,705
Obligated Balance Transferred, Net (Line 13)	0
Less: Obligated Balance, Net - End of Period (line 14)	(47,791,238)
Total Outlays (Line 15)	\$40,132,859

epartmental Working Capital Fund

The Department of Transportation Working Capital Fund (WCF) which is managed by the Transportation Administrative Service Center (TASC) provides for those common administrative services that have been determined to be more economical when provided on a centralized basis. The services provide for efficiency of operations while avoiding duplication of effort. The WCF operates on a revolving fund basis in which goods and services are financed by charging current operating expenses back to the customers and funding asset acquisitions from equity available for reinvestment which was obtained through the depreciation of capitalized goods. WCF services are provided to customers both within and outside of the Department. For services provided to customers within the Department. obligational authority approved by Congress is required. For services provided outside the Department, there is no obligation limitation.

The administrative services provided through the WCF are many and varied. The following are the lines of business under TASC which basically describe the types of services provided.

LINES OF BUSINESS

Worklife Wellness

Headquarters Building Management

Information Services

Learning and Development

Space Management

Security Operations

System Development

Information Technology Operations

Acquisition Services

Human Resource Service Center

The major customers who benefit from these services are the modal administrations, which include the Office of the Secretary, the Federal Aviation Administration, the Federal Highway Administration, the United States Coast Guard, and the National Highway Traffic Safety Administration.

DOT Working Capital Fund Statement of Financial Position For the Period Ended September 30, 1997 (Dollars in Thousands)

Accelo		
Assets		1997 FAA Total
Cash		26,777
Accounts Receivable		6,615
Prepayments		981
Travel Advances		
Other Advances - Government		66
Fixed Assets:		
Equipment - Personal Property	27,664	
Less: Accumulated Depreciation	<u>18,362</u>	9,302
Automated Data Processing Software	841	
Less: Accumulated Depreciation	<u>610</u>	231
Leasehold Improvements	787	
Less: Accumulated Depreciation	<u>655</u>	132
Total Assets		44,104
Liabilities		
Accounts Payable:		
Government Agencies		5,286
Commercial Vendors		12,377
Accrued Liabilities:		,
Advances from Others - Public		318
Advances from Others - Government		5,685
Salaries and Wages		1,215
Annual Leave		1,417
Actuarial Liability		1,457
Total Liabilities		27,755
Total Elabilities		21,133
Opultal		
Capital		
Total Equity (See Equity Statement)		16,349
Total Liabilities and Equity		44,104
·····		,

DOT Working Capital Fund Statement of Equity For the Period Ended September 30, 1997 (Dollars in Thousands)

	1997 FAA Total
Equity Invested	9,665
Equity Available For Reinvestment	9,150
Capital Investments - Unfilled Orders	1,157
Cumulative Results From Operations	(2,166)
Future Funding Requirements	(1,457)
Total Equity	16,349

REVENUE:	FY 1997Total
OST	11,432
USCG	17,868
FAA	28,947
FRA	1,696
NHTSA	6,090
FTA	4,003
SLSDC	141
RSPA	2,452
MARAD	2,761
OIG	1,712
FHWA	18,003
BTS	1,428
STB	72
TSC	126
OTHERS	11,186
REVENUE FROM BILLING	107,917
Employee Parking Fees	649
Coin Operated Copiers	34
Health & Fitness	27
TOTAL REVENUE	108,627
TOTAL NEVEROL	100,027
LESS: ACTUAL EXPENSES	
Customer Service Misc Svc	(38)
Drug Awareness and Testing	1,854
Alocohol Awareness	1,011
Special Personnel Programs	169
Personnel Operations	1,688
DOT Connection - CSC	696
Telecommunications - Other	5,634
FTS	1,750
IDN	805
Multipurpose Briefing Room	506
Voice Mail	681
Telecommunications - Moves/ Changes	778
Telecommunications - Local Services	1
Telecommunications - Maintenance	2
Telecommunications - USCG	402

LESS: ACTUAL EXPENSES	FY 1997Total
Telecommunications - Misc Expense	32
Telecommunications - Special Services	346
TCC Services	14,481
WCF Office Automation Support	7
Office Automation - DOT EMail	498
Office Automation - DOT Internet	349
Office Automation - Lans Support	1,790
Office Automation - Applications Support	201
Office Automation - Maintenance	37
Office Automation - Hardware/Software	442
Office Automation - Projects	5
Office Automation - OST EMail	288
Office Automation - OST Internet	109
Health and Fitness Center	574
Motor Pool	642
Mail	1,531
Postage	2,393
Equipment - Accounting Section	230
Transit Benefits	3,501
Parking Management	123
Employee Parking Fees	649
Shuttle Bus	222
Warehouse	462
Building Management	1,950
Space Management	773
DOT Day Care Center	2
Special Building Services	2,828
OSHA	13
Satellite Copiers	685
Coin Operated Copiers	63
In-House Printing Plant - Landover	1,556
Printing - Contracted	11,215
Copy Centers	2,013
Photo - In House	352
Photo - Contracted	134
Initial Distribution	1,175
Subsequent Distribution	666
Library Services	3,089
Graphics - In House	717
Graphics - Contracted	1,380

LESS: ACTUAL EXPENSES :	FY 1997Total
Procurement Operations	393
ITOP Services	6,925
Contract Information System	6
Presentation Service	195
Information Technology	5
Human Resource Miscellaneous Services	3
Sign Language Interpretation	208
Security and Investigations - OST	322
OST Transportation	38
Passports & Visas	87
Building Security	3,188
Other Security and Investigations	1,350
Personnel Security	247
Accounting Services	17
Computer Center Training	583
Training & Organization Development	782
Unemployment Compensation	1,672
Federal Laboratory Consortium	42
Consolidated Federal Funds	55
Single Audit Clearinghouse	129
DAFIS - Operations	219
DAFIS - Administration	1,183
DAFIS - Integration	637
DAFIS - Producation	3,155
DAFIS - Maintenance	1,609
DAFIS - Policy	1,466
Dockets Management System Operations	1,812
Dockets Management System	225
Procurement Streamline	59
TAPS/APSI Development	250
IPPS Operations	5,643
Applications - Pool Services	3,019
Applications - Dedicated	1,014
Applications - Non-DOT	110
Dockets Management Development	32
CPMIS	609
Deferred Billings	142

	FY 1997Total
TOTAL EXPENSES	110,893
FY 1997 NET RESULTS FROM OPERATIONS	(2,266)
FY 1996 CUMULATIVE RESULTS	100
CUMULATIVE RESULTS FROM OPERATIONS	(2,166)

ederal Aviation Administration (FAA) Franchise Fund (Administrative Services Fund)

FUND ESTABLISHMENT

The FAA Administrative Services Fund began in FY 1997 authorized under P.L. 104-205 dated September 30, 1996. This fund is available without FY limitation for the costs of capitalizing and operating administrative services. The initial service activities include international training, accounting, payroll, travel, duplicating, multi-media and information technology. Billings for services rendered are paid in advance from funds available to the FAA and other Federal agencies.

BACKGROUND

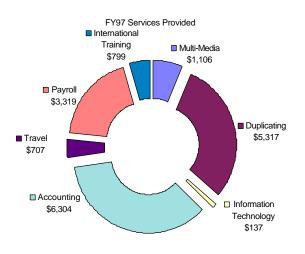
The Government Management Reform Act (GMRA) of 1994. P.L. 103-356, provided for the establishment of six franchise fund pilot programs. The six pilots were authorized by the President's Chief Financial Officers (CFO) Council prior to submission of the FAA Franchise Fund proposal. However, the CFO Council's Franchise Fund Working Group strongly endorsed the FAA proposal and recommended submission to Congress as a franchise-like operation. This endorsement resulted in Congressional approval.

The franchise concept is designed to create competition within the public sector for the performance of a variety of support services. This allows for the establishment of an environment to maximize the use of internal resources through the consolidation and joint-use

of like functions and to gain the efficiencies and economies of scale associated with the competitive offering of services to other Government agencies.

The Administrative Services Fund operates in a revolving fund environment which is designed to provide a better flow and management of resources and investments. This should result in increased productivity. efficiency and effectiveness, while promoting safety and customer service. Fees for services are established by the agency to fully recover the estimated cost of providing the offered services. The franchise fund pilot program permits the Fund to acquire capital equipment, automated data processing systems, financial management and management information systems necessary to conduct the business of the fund. In order to provide the level of investment necessary to establish a business operation, Congress granted the FAA Administrative Services Fund some limited flexibility to retain earnings and use unobligated balances. The Administrative Services Fund offers a wide variety of services as described in the following chart:

International Training		
Technical Specific Courses	Foreign and Domestic Locations	Computer Based Instruction
Interactive Video Teletraining	Training Support Services and Consulting	
	ACCOUNTING	
Domestic and Foreign Support	Accounts Receivable and Payable	Grant and Third Party Payments
Collections and Deposits	Cost, Property, and Inventory Accounting	
	PAYROLL	
Administrative Fund Financial Tracking System	Salary Payments and Pay Audits	Retirement Plan Transactions and Records
Tax Reporting: Federal, State, Local	Retroactive Entitlements & Processing	Time & Attendance Processing
	TRAVEL	
Domestic and Foreign Support	Permanent Change of Station	Transportation Requests and Bills of Lading
Voucher Processing	American Express Accounts	
	DUPLICATING	
Commercial Printing	Copying	Controlled Material Consultation
Distribution World-Wide		
Multi-media Services		
Television Production Services	Graphic Design Services	Aerial Photograph
Photographic Services		
	Information Technology	
Repair and Maintenance of Desktop Systems	Local Area Network/WAN Systems Management	Programming and Operations

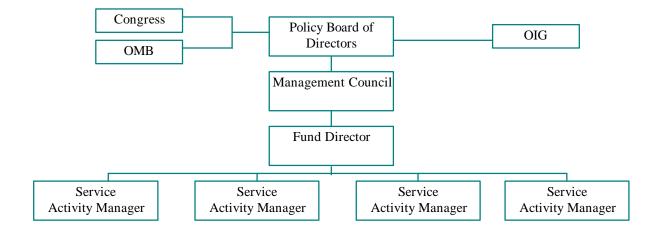


FUND SERVICES

The fund provided services totaling \$17,689 in FY 1997. Duplicating services began an initiative to merge the local GSA printing facility with the FAA printing and duplicating activity. Through joint cooperation between the two agencies, the initiative was implemented on June 8, 1997. This merger fully met the intent of franchise by consolidating activities that were providing support to multiple federal agencies. The graphic presentation shown above depicts the distribution of customer reimbursement by service activity for FY 1997. Additional fund information is presented in the FAA's FY 1999 Annual Report.

FUND STRUCTURE

The agency has established a Policy Board of Directors, Management Council. Fund Director and Service Activity Managers to enhance the administration and operations of the franchise fund. The Policy Board of Directors provide broad overall guidance for the fund while the Management Council deals with direct oversight of and administration of the fund. The Fund Director oversees the day-to-day operations of the fund and reports to the Management Council on fund activities. The Fund Director also serves as a liaison between the Service Activity Managers and the Management Council. This structure is pictured below:



SECTION IV AUDIT REPORT

Subject: ACTION: Report on Fiscal Year 1997

Date: March 31, 1998

Consolidated Financial Statements, DOT

Report Number: FE-1998-105

From: Kenneth M. Mead

Reply To
Attn Of: Meche:x61496

Inspector General

To: The Secretary

Thru: The Deputy Secretary

I respectfully submit the Office of Inspector General (OIG) report on the Department of Transportation's Consolidated Financial Statements for the Fiscal Year (FY)1997 ended September 30, 1997. This report is required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

The audit report is the responsibility of the OIG. All other information--including the Overview, Financial Statements, Notes, and Supplemental Information--is the joint responsibility of the Department of Transportation and its Operating Administrations (DOT). Our audit was limited to the Consolidated Financial Statements as of, and for the year ended, September 30, 1997.

During the last year, DOT worked hard to address deficiencies in its financial operations, but more needs to be accomplished. DOT must continue to aggressively work on completing corrective actions on 33 of the 77 recommendations in our prior report on the FY 1996 Consolidated Financial Statements (see exhibit).

All Federal departments were required by Federal Financial Accounting Standards to have the capability in place, by October 1, 1997, to meet the requirements of the managerial cost accounting standards. Cost accounting is needed in the Federal Government to provide reliable and timely information on the full cost of Federal programs. DOT is considering several options. For example, FAA is currently developing a cost accounting system. The National Civil Aviation Review Commission called for strong financial controls, including a reliable cost accounting system by October 1998, so that FAA can manage its resources in a businesslike manner, and allocate its cost correctly and fairly as the basis for a cost-based user fee system.

Until the financial control issues discussed in this report are resolved and DOT receives an unqualified audit opinion on its financial statements, DOT's new cost accounting systems, when implemented, will not produce accurate, and defensible, cost data. This is essential for FAA if it is to move to a Performance Based Organization, and eventually provide services paid directly by user fees.

For FY 1998, the Office of Management and Budget (OMB) significantly changed its requirements for preparing financial statements. To its credit, DOT decided to prepare two statements (Balance Sheet and Statement of Budgetary Resources) in accordance with the new guidance. Lessons learned from the early start will assist the Deputy Chief Financial Officer in providing clear instructions for resolving inconsistencies in the FY 1998 financial statements.

Other noteworthy accomplishments during FY 1997 included: Highway Trust Fund transactions were properly processed, adjusted, and reported, and weaknesses identified in our prior Fiscal Year 1996 report were corrected. The Federal Aviation Administration (FAA) capitalized \$2.6 billion in equipment purchase cost previously expensed, tested the existence of \$1.2 billion of real property (buildings, land, and structures), and completed a comprehensive physical inventory of its Logistics Center. The Coast Guard completed a comprehensive physical inventory of equipment reported at \$5.1 billion, and the Maritime Administration completed actions to properly value its ships in the National Defense Reserve Fleet at \$932 million.

The most significant issues that need to be corrected by DOT in order to receive an unqualified audit opinion concerns its property and inventory reported at \$28.5 billion, and the liability for pensions reported at \$14 billion. We could not substantiate the existence or valuations of property and inventory, or reasonableness of the estimated pension liability because:

• Comprehensive physical inventories needed to be taken and valued for property reported at \$25.2 billion. FAA and Coast Guard also needed to record property transactions correctly. FAA's "validation" of equipment totaling \$2.8 billion only determined the equipment was recorded in two different files, but did not verify its actual existence or value. Neither FAA nor Coast Guard reviewed the recorded property values. Supporting property values is an enormous task for FAA and Coast Guard because much of the property is old, and records supporting historical cost do not exist, or at best, are difficult to locate. Comprehensive inventories are needed to establish accountability for safeguarding DOT assets and to establish accurate property records. Unless DOT can establish a supportable value for its substantial property investments, it will be unable to accurately compute depreciation, which is a new requirement for FY 1998 Financial Statements.

- Comprehensive physical inventories needed to be taken for \$566 million of spare parts at field locations, and up-to-date records to account for these parts should be maintained. Based on our observations and analyses, we could only rely on the inventory results supporting \$52 million of the \$325 million reported for FAA field spares. Coast Guard did not inventory \$241 million of its ships parts or onboard spare parts. Without an accurate inventory, it will be difficult for DOT to defend how much inventory it has or needs, and to ensure the inventory is safeguarded and not overstocked. The shortage of, or inability to locate, essential parts could result in repair delays for critical DOT equipment.
- An acceptable estimate of the liability for Coast Guard retirees' pensions was needed. Our review disclosed the contractor's preliminary estimate was understated by at least \$1.3 billion. The estimated liability changes annually, and is reflected in the financial statement as a current year expense. Any changes based on inaccurate estimates could adversely distort the true cost of operations.

DOT also is required to include tax revenues (revenues) and investments in its financial statements for the Highway, Airport and Airway, Oil Spill Liability, and Aquatic Resources Trust Funds. The revenues, collected by Treasury, totaled \$28.4 billion and investments totaled \$30.9 billion for FY 1997.

To independently verify revenues, the General Accounting Office (GAO) reviewed Treasury procedures for estimating and certifying revenues for the four DOT trust funds. Accounting standards allow estimates to be used so long as management has a reasonable basis. GAO hired a contractor to review Treasury's process for estimating FY 1997 revenues. GAO's contractor was unable to complete the review, and terminated its work because information on how the estimates were made was not available.

For the first three quarters of FY 1997, GAO found errors relating to reporting and certifying total government excise tax revenues. GAO projected these errors potentially overstated revenues by as much as \$571 million.

We also obtained, from Treasury, the estimated and certified revenues for two DOT trust funds. Our comparison of certified revenues to estimates for eight quarterly reporting periods found variances for the Highway Trust Fund ranged from an understatement of \$903 million to an overstatement of \$638 million. For the Airport and Airway Trust Fund, the variances ranged from an understatement of \$219 million to an overstatement of \$62 million.

In the past, DOT trust funds have been negatively impacted by Treasury's distribution of revenues. In FY 1994, a clerical error by Treasury resulted in revenues being

understated by \$1.59 billion for the Highway Trust Fund. On January 1, 1996, legislation authorizing collection of aviation taxes lapsed, but was subsequently reinstated for the period August 27 to December 31, 1996. During this time, estimated revenues were transferred to the trust fund, although airlines were not required to make deposits. Excess transfers totaled \$1.2 billion. In both cases, congressional action was needed to fix the problems created by Treasury.

It is important that the accounting and certifying of trust fund revenues and investments by Treasury produce a high level of confidence for all parties. With this in mind, we recommend the Secretary of Transportation coordinate with the Secretary of the Treasury, GAO, and the Deputy Controller of OMB to require audit coverage of the accounting, estimating, certifying, and investing of trust fund tax revenues, in accordance with audit standards related to auditing estimates and applying specific agreed-upon auditing procedures.

As a result of DOT's continuing problems with property, inventory, the liability for military retired pay and health care cost, and the Treasury issue, we were unable to express, and we do not express an opinion (commonly called a disclaimer of opinion) on the fairness and reasonableness of DOT's Consolidated Financial Statements.

To ensure compliance with the Federal Financial Management Improvement Act of 1996, DOT needs to (1) modify its accounting system to be the primary source of financial information to prepare the Consolidated Financial Statements, and (2) complete assessments of Year 2000 computer problems. As of March 30, 1998, Year 2000 assessments were not complete for two systems. Although these issues are important, they would not prevent DOT from receiving an unqualified audit opinion.

To address the compliance issues, we are making two recommendations. First, the Department's accounting system must be modified, or replaced, to provide sufficient time to review and correct financial records. The Financial Statement Module currently being used had not been modified to prepare the new financial statements required for FY 1998. Second, the Deputy Chief Financial Officer should coordinate with the Department's Acting Chief Information Officer to ensure Year 2000 assessments are completed expeditiously for all DOT systems.

We appreciate the cooperation and assistance of DOT representatives. If we can answer any questions or be of any further assistance, please feel free to call me on 61959, or John Meche on 61496.

Attachments

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DEPARTMENT OF TRANSPORTATION INSPECTOR GENERAL'S INDEPENDENT REPORT ON DOT'S FISCAL YEAR 1997 CONSOLIDATED FINANCIAL STATEMENTS

To the Secretary

The Department of Transportation, Office of Inspector General (OIG), audited the Department's Consolidated Financial Statements as of, and for the year ended, September 30, 1997. We were unable to express an opinion on the Consolidated Financial Statements because we could not substantiate Property reported at \$26.5 billion, Inventory reported at \$2 billion, and the liability for Pensions reported at \$14 billion. Internal control weaknesses at the Department of Treasury (Treasury) could also affect Trust Fund excise tax revenues (revenues) and investments reported at \$28.4 billion and \$30.9 billion, respectively.

We also are reporting on the internal accounting and administrative control systems, and compliance with laws and regulations, as applicable to the Department's Consolidated Financial Statements. The audit was performed in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin 93-06, Audit Requirements for Federal Financial Statements.

The objectives of our audit of the Fiscal Year (FY) 1997 Consolidated Financial Statements, prepared by the Department of Transportation and its Operating Administrations (DOT), were to determine whether (1) the financial statements present fairly the financial position and results of operations of DOT in accordance with OMB Bulletins 94-01 and 97-01; (2) DOT has an adequate internal accounting and administrative control structure; (3) DOT has complied with the laws and regulations which (a) could have a direct and material effect on the financial statements or (b) have been specified by OMB; (4) the information and manner of presentation in the Overview and Supplemental Information sections are materially consistent with the information in the financial statements; and (5) supporting data for performance measures existed and were properly reported.

Using the results of our audit fieldwork, DOT significantly enhanced the precision and comprehensiveness of the information reported in the FY 1997 Consolidated Financial Statements and accompanying notes, including \$63.7 billion in adjustments and \$34.3 billion in reclassifications. In our view, the need to make \$98 billion in adjustments and reclassifications clearly demonstrates that DOT's financial operations continue to need improvement.

This report presents our disclaimer of opinion on DOT's Consolidated Financial Statements as of, and for the year ended, September 30, 1997. The financial information included in the Overview and Supplemental Information was materially consistent with the Consolidated Financial Statements, except for the Consolidated Statement of Budgetary Resources. This statement was prepared based on budgetary accounting requirements which significantly differ from accounting policies used to prepare the financial statements as described in Note 1.

The performance measures included in the Overview were not financial-related. Therefore, we limited our work to determining if the performance measures met the requirements contained in OMB Bulletins and the Government Performance and Results Act, and were consistent with DOT's Strategic Plan. Except for the Highway Trust Fund performance measures, the information did not constitute performance measures as required by the OMB Form and Content Bulletins, and the Government Performance and Results Act. Except for FAA, performance measures were consistent with DOT's Strategic Plan. DOT was aware of this problem, and was in process of revising its performance measures to comply.

We also are including our reports on the internal control structure, and compliance with laws and regulations, in Sections B and C of this report.

A. <u>DISCLAIMER OF OPINION ON FINANCIAL STATEMENTS</u>

In accordance with the Chief Financial Officers (CFO) Act of 1990, as amended by the Government Management Reform Act of 1994, the OIG audited DOT's Consolidated Financial Statements (Balance Sheet and Statement of Operations), as of, and for the year ended, September 30, 1997. The Consolidated Financial Statements are the responsibility of DOT. The OIG's responsibility is to express an opinion on the fairness and reasonableness of the financial statements based on our audit.

As required by OMB Bulletins 94-01 and 97-01, Note 1 to the Consolidated Financial Statements describes the accounting policies used by DOT to prepare the financial statements. These policies represent generally accepted accounting principles for the Federal government.

We were unable to substantiate the existence and valuation of Property reported at \$26.5 billion, and Inventory reported at \$2 billion, on the Consolidated Balance Sheet because of the lack of comprehensive physical inventories, inadequate general ledger balances and subsidiary records, inadequate supporting documentation, and unreconciled discrepancies between balances maintained in the Departmental Accounting and Financial Information System (DAFIS) and DOT's subsidiary records. Property and inventory represent 40 percent of DOT's total assets reported on the Consolidated Balance Sheet.

We also were unable to substantiate the liability for Pensions reported at \$14 billion on the Consolidated Balance Sheet because the Coast Guard estimate for military retired pay and health care cost contained significant errors. This represents 68 percent of DOT's reported liabilities.

DOT is required to include, in its Consolidated Financial Statements, the Department of Treasury's (Treasury) investments and revenues for the Highway, Airport and Airway, Oil Spill Liability, and Aquatic Resources Trust Funds. DOT has no control over the collecting, investing, and reporting of revenues for these trust funds. Treasury collects and distributes the revenues into government trust funds. Revenues are received daily, while supporting information on how the revenues should be distributed (tax returns) is usually submitted quarterly. Treasury, using economic models, estimates and makes the initial distribution of revenues to the various trust funds.

Subsequently, the Internal Revenue Service (IRS), a component of the Treasury, uses tax returns to certify the amount that should have been transferred to the trust funds, and Treasury makes the appropriate adjustment. Typically, adjustments lag 6 to 9 months behind the distribution made from estimates.

The overall process Treasury used to estimate and make the initial distribution of revenues, and the IRS certification process, had not been audited. To independently verify revenues, we asked the General Accounting Office (GAO) to review the Treasury procedures for estimating and certifying revenues for the four DOT trust funds. GAO hired a contractor to review Treasury's process for estimating FY 1997 revenues. GAO's contractor was unable to complete the review, and terminated its work because information, on how the estimates were made, was not available.

For the first three quarters of FY 1997, GAO found errors and internal control weaknesses relating to reporting and certifying total government excise tax revenues. GAO projected that these errors potentially overstated revenues by as much as \$571 million.

Our comparison of certified revenues to estimates for two DOT trust funds for eight quarters (September 1995 to June 1997) found significant variances. For the Highway Trust Fund, variances for eight quarterly reporting periods ranged from an understatement of \$903 million to an overstatement of \$638 million. For the Airport and Airway Trust Fund, variances ranged from an understatement of \$219 million to an overstatement of \$62 million.

In the past, DOT trust funds have been negatively impacted by Treasury's distribution of revenues. In FY 1994, a clerical error by Treasury resulted in revenues being understated by \$1.59 billion for the Highway Trust Fund. On January 1, 1996, legislation authorizing collection of aviation taxes lapsed, but was subsequently

reinstated for the period August 27 to December 31, 1996. During this time, estimated revenues were transferred to the trust fund, although airlines were not required to make deposits. Excess transfers totaled \$1.2 billion.

In both cases, congressional action was needed to fix the problems created by Treasury. To correct the clerical error, Congress, in the FY 1997 Emergency Supplemental Appropriations Act, provided the Highway Trust Fund with \$695 million in additional funding to the states, including a shift of \$318 million among the states. Congressional reauthorization of the Airport and Airway Trust Fund included specific language to allow the trust fund to retain the \$1.2 billion.

Concerning a disclaimer of opinion, the American Institute of Certified Public Accountants' Statements on Auditing Standards describes it this way: "A disclaimer of opinion states that the auditor does not express an opinion on the financial statements." A disclaimer of opinion is appropriate when the auditor has been unable to form, or has not formed, an opinion as to the fairness of presentation of the financial statements in conformity with generally accepted accounting principles, or when there are material uncertainties.

We could not substantiate Property reported at \$26.5 billion, Inventory reported at \$2 billion, and the liability for Pensions reported at \$14 billion. Treasury weaknesses also could affect DOT trust fund revenues and investments reported at \$28.4 billion and \$30.9 billion, respectively. Therefore, we were unable to express, and we do not express an opinion (disclaimer of opinion) on DOT's Consolidated Financial Statements as of, and for the year ended, September 30, 1997. In our view, these limitations provide a reasonable basis for our disclaimer of opinion.

B. REPORT ON INTERNAL CONTROL STRUCTURE

OMB guidance for implementing the audit provisions of the CFO Act requires the auditors to assess the reporting entity's internal control structure. DOT management is responsible for establishing and maintaining an internal control structure. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that (1) transactions are properly recorded and accounted for, to permit preparation of reliable financial reports in accordance with applicable accounting policies; (2) funds, property, and other assets are safeguarded against unauthorized use, loss, or disposition; (3) transactions are executed in compliance with laws and regulations; and (4) data supporting reported performance measures existed and were properly recorded.

In planning our financial statement audit, we considered the internal control structure of DOT to identify appropriate auditing procedures for the purpose of expressing an opinion on the Consolidated Financial Statements, and to determine whether the

internal control structure met DOT's internal control objectives. However, the intent of our review was not to provide an opinion on DOT's overall system of internal controls.

For the Highway Trust Fund's significant internal control policies and procedures, found to be properly designed and placed in operation, we performed sufficient tests to assess whether controls were effective and working as designed. Our internal control work in other DOT Operating Administrations focused on assessing corrective actions taken on the 26 deficiencies, presented in our prior report on the FY 1996 Consolidated Financial Statements, which we considered "reportable conditions" under standards established by GAO, the American Institute of Certified Public Accountants, and OMB Bulletin 93-06. We made 77 recommendations in our prior report to strengthen internal controls and establish the correctness of financial statement balances.

Reportable conditions are matters coming to our attention involving significant deficiencies in the design or operation of the internal control structure which, in our judgment, could adversely affect the entity's ability to ensure the objectives of the internal control structure are being achieved. A material weakness is a reportable condition where the design or operation of one or more specific internal control mechanisms does not reduce, to a relatively low level, the risk of material errors or irregularities occurring and not being detected within a reasonable time by employees in the normal course of performing their assigned functions.

As a result of our internal control assessments, we concluded DOT completed corrective actions to resolve five material internal control weaknesses (Findings D, E, F, J & K) and six reportable conditions (Findings P, Q, R, U, V, & X) identified in our prior audit report on DOT's FY 1996 Consolidated Financial Statements. For example, DOT successfully reconciled budget execution information and established methods for estimating yearend liabilities. However, corrective actions on 15 internal control weaknesses, and 33 recommendations, had not been completed.

FAA, Coast Guard, and the Maritime Administration (MARAD) worked hard to address deficiencies in their financial reporting for Property, Inventory, and properly recording property transactions. During FY 1997, FAA capitalized \$2.6 billion in equipment purchase cost that had previously been erroneously expensed and completed a comprehensive physical inventory of its Logistics Center. Coast Guard completed comprehensive physical inventories of personal property reported at \$5.1 billion, and hired a contractor to assist in identifying documentation to support the value of its real property.

Coast Guard also completed a comprehensive physical inventory of its aviation parts inventory, reported at \$654 million, and researched the price of aviation parts for the 200 highest dollar value items, and certified the reasonableness of the value for these items. MARAD completed actions to properly value its ships in the National Defense

Reserve Fleet at \$932 million, completed a comprehensive physical count, and developed a pricing methodology to substantiate the existence and value of its inventory reported at \$303 million. DOT also modified DAFIS to assist in preventing Property from being incorrectly expensed.

Federal Financial Accounting Standards required all Federal departments to have the capability in place, for FY 1998 beginning October 1, 1997, to meet the requirements of the managerial cost accounting standards. Cost accounting is needed in the Federal Government to provide reliable and timely information on the full cost of Federal programs. DOT is considering several options. For example, FAA is currently developing a cost accounting system. The National Civil Aviation Review Commission called for strong financial controls, including a reliable cost accounting system by October 1998, so that FAA can manage its resources in a businesslike manner, and allocate its cost correctly and fairly as the basis for a cost-based user fee system. We are reviewing FAA's new cost accounting system, and we will address our observations in a separate report to be issued later.

Until the financial control issues discussed in this report are resolved and DOT receives an unqualified audit opinion on its financial statements, DOT's new cost accounting systems, when implemented, will not produce accurate, and defensible, cost data. This is essential for FAA if it is to move to a Performance Based Organization, and eventually provide services paid directly by user fees.

Four of the 15 uncorrected internal control weaknesses must be eliminated before DOT can receive an unqualified opinion on its financial statements. These four material weaknesses apply primarily to FAA and Coast Guard, and involve Property; Inventory; Capitalization of Property; and the estimate of future liabilities for military retired pay and health care cost. FAA's material weaknesses are discussed in a separate report.

In an agreement with OIG, Coast Guard management represented that it had not corrected internal control weaknesses involving Property, Inventory, and Capitalization of Property as of September 30, 1997. Coast Guard plans to complete its corrective actions by the end of FY 1999. The following paragraphs represent examples of corrective actions DOT needs to complete.

Property

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DOT did not complete corrective actions for us to substantiate the existence and value of its Property reported at \$26.5 billion on the Consolidated Balance Sheet. About 95 percent is owned by FAA (\$11.6 billion) and Coast Guard (\$13.6 billion). We

¹FY 1997 Financial Statement, FAA, OIG Report Number FE-1998-098, March 25, 1998.

identified problems with FAA's validation of \$4 billion of its property.² For example, FAA "validated" equipment totaling \$2.8 billion with a computer match of two different files. This approach only determined the equipment was recorded on both records, but did not verify its actual existence or value. Coast Guard had not completed a comprehensive physical inventory of its buildings and structures reported at \$8.3 billion. Comprehensive inventories are needed to establish accountability for safeguarding DOT assets and establishing accurate property records. Coast Guard plans to complete a physical inventory and value its property at historic cost during FY 1998.

DOT did not address the valuation for \$25.2 billion of its property. Neither FAA nor Coast Guard reviewed the recorded property values. Supporting property values is an enormous task for FAA and Coast Guard because much of the property is old, and records supporting historical cost do not exist, or at best, are difficult to locate. Coast Guard's property value for its buildings and structures (\$8.5 billion) is based on estimated replacement cost, not historical cost. Unless DOT can establish a supportable value for its substantial property investments, it will be unable to accurately compute depreciation, which is a new requirement for FY 1998.

Inventory

DOT did not complete corrective actions for us to substantiate the existence and value of Inventory reported at \$2 billion on the Consolidated Balance Sheet. About 86 percent is owned by FAA (\$764 million) and Coast Guard (\$949 million). We identified problems with FAA's "validation" of field spares.³

Based on our observations and analyses, we could only rely on the inventory results supporting \$52 million of the \$325 million reported for FAA field spares. Coast Guard did not verify \$241 million of spare parts at the Engineering Logistics Center and onboard ships. Coast Guard plans to complete physical counts of its remaining inventory, and will complete its price certification for ship parts during FY 1998. Without an accurate inventory, it will be difficult for DOT to defend how much it has or needs, and to ensure inventory is safeguarded and not overstocked. The shortage of, or inability to locate, essential parts could result in repair delays for critical DOT equipment.

Capitalization of Property

DOT continued to incorrectly expense property during FY 1997. FAA and Coast Guard had to manually review their financial expense records to identify

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²FY 1997 Financial Statement, FAA, OIG Report Number FE-1998-098, March 25, 1998.

³ Ibid.

property and inventory that should have been recorded as assets. FAA identified \$2.6 billion and Coast Guard identified \$172 million. Our report on Coast Guard projects funded with Operating Expenses⁴, identified 32 of 45 projects (totaling about \$22 million) which represented property that should have been capitalized. For example, a modular office complex, constructed at a cost of \$811,000, was expensed. This manual process is time-consuming and labor intensive, and would be unnecessary if the transactions were recorded in the accounting system at the time of occurrence.

Estimate of Future Liabilities for Military Retired Pay and Health Care Cost

Coast Guard used a contractor to develop its FY 1997 estimated future liability for military retired pay and health care cost. The contract for the FY 1997 estimate incorporated the five recommendations contained in our prior report.⁵ Although required by the contract, the contractor did not compare active and retired populations of the Coast Guard to the Department of Defense (DOD) before using DOD's assumptions. Without this comparison, use of DOD's assumptions could materially distort the estimate.

Our review of the contractor's preliminary estimate disclosed significant errors. To illustrate, for Coast Guard members having 18-and 19-years of service, the contractor improperly assumed these members would leave service before achieving 20 years of service, and therefore excluded them from the calculation to estimate military retired pay. Correction of errors increased the liability by about \$1.3 billion. Our review of the Coast Guard's estimate was still in process at the time of this report. We will issue a separate report to the Coast Guard upon completion of our work.

An acceptable estimate of the liability for military retired pay and health care cost is essential to properly report current year cost of operations. The estimate for this liability can change from year to year. These changes are reflected in the financial statement as a current year expense. Any changes based on unacceptable estimates could adversely distort the true cost of operations.

Our internal control testing identified one additional deficiency which we consider to be a reportable condition under standards established by GAO, the American Institute of Certified Public Accountants, and OMB Bulletin 93-06. However, this issue is beyond the control of DOT.

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⁴ Management Advisory on Coast Guard Projects Funded with Operating Expenses, OIG Report Number FE-1998-002, October 14, 1997.

⁵ Management Advisory on Actuarial Estimates for U.S. Coast Guard Retired Pay and Health Care Cost, OIG Report Number AD-CG-7-003, April 4, 1997.

Trust Fund Tax Revenues

DOT is required to include tax revenues (revenues) for four trust funds (Highway; Airport and Airway; Oil Spill Liability; and Aquatic Resources) in its Consolidated Financial Statements. DOT has no control over the collecting and reporting of revenues for these trust funds. Treasury collects and distributes the revenues into government trust funds. Revenues are received daily, while supporting information on how the revenues should be distributed (tax returns) is usually submitted quarterly. Therefore, Treasury uses economic models to estimate the revenues and make an initial distribution to the various trust funds.

Subsequently, the Internal Revenue Service (IRS), a component of the Treasury, uses tax returns to certify the amount that should have been distributed to the trust funds, and Treasury makes the appropriate adjustment. Typically, adjustments lag 6 to 9 months behind the distribution made from estimates. Treasury processes accounting transactions associated with distribution and investment of the revenues and transfers to DOT, and reports Revenues and Investments to DOT.

OMB Bulletin 93-06 and Government Auditing Standards require the OIG to determine whether FY 1997 revenues and investments reported at \$28.4 billion and \$30.9 billion, respectively, are fair and reasonable. Treasury OIG and GAO have the authority to conduct audits of Treasury activities. Treasury OIG hired an independent public accounting firm to audit the accounting transactions recorded by Treasury's Bureau of Public Debt. However, the contract audit did not include coverage of procedures for estimating or certifying revenues distributed to the individual trust funds.

Weaknesses existed with Treasury's estimates of trust fund revenues. GAO hired a contractor to evaluate Treasury's process for estimating FY 1997 revenues. Accounting standards allow estimates to be used in financial statements if management has a reasonable basis for the estimate. Treasury was unable to provide a basis for its estimate. Consequently, GAO's contractor was unable to complete the review, and terminated its work because Treasury did not (1) maintain documentation supporting the estimates, (2) document internal controls, and (3) make key personnel available to explain the estimating process.

Since GAO was not able to evaluate Treasury's estimates, we obtained information, from Treasury, to compare revenues, certified by IRS, to estimates for eight quarterly reporting periods (September 1995 through June 1997) for two DOT trust funds--Highway, and Airport and Airway. For the Highway Trust Fund, our comparison found variances between the estimates and IRS-certified revenues ranged from an understatement of \$903 million to an overstatement of \$638 million. For the Airport and Airway Trust Fund, the variances ranged from an understatement of \$219 million to an overstatement of \$62 million.

In the past, DOT trust funds have been negatively impacted by Treasury's distribution of revenues. In FY 1994, a clerical error by Treasury resulted in revenues being understated by \$1.59 billion for the Highway Trust Fund. On January 1, 1996, legislation authorizing collection of aviation taxes lapsed, but was subsequently reinstated for the period August 27 to December 31, 1996. During this time, estimated revenues were transferred to the trust fund, although airlines were not required to make deposits. Excess transfers totaled \$1.2 billion.

In both cases, congressional action was needed to fix the problems created by Treasury. To correct the clerical error, Congress, in the FY 1997 Emergency Supplemental Appropriations Act, provided the Highway Trust Fund with \$695 million in additional funding to the states. Congressional reauthorization of the Airport and Airway Trust Fund included specific language to allow the trust fund to retain the \$1.2 billion.

Weaknesses also existed with Treasury's certification of revenues. GAO performed specific audit procedures to evaluate the process for certifying actual revenues. This work identified significant internal control weaknesses, and errors, in the certification process. GAO estimated the distribution of FY 1997 governmentwide excise tax revenues was potentially overstated by as much as \$571 million, but was not able to quantify the impact on DOT's trust funds.

Treasury's weaknesses in estimating and certifying trust fund revenues could affect DOT trust fund revenues and investments, reported at \$28.4 billion and \$30.9 billion, respectively. As a result, we issued a qualified opinion on the Highway Trust Fund's FY 1997 Financial Statements, and trust fund revenues also contributed to our disclaimers of opinion on FAA's FY 1997 Financial Statements, and DOT's FY 1997 Consolidated Financial Statements.

These weaknesses and issues concerning trust fund revenues and investments are beyond DOT's control. Accordingly, DOT alone cannot resolve this problem. The successful resolution will involve the collective collaboration of high-level officials in OMB, GAO, Treasury, and DOT. When conducting audits of financial statements, reliance on the work of others is an accepted practice, recognized by the American Institute of Certified Public Accountants. In conducting our audits of DOT's Consolidated Financial Statements, we rely on the work of others such as the Department of Labor Inspector General regarding projected liabilities under the Federal Employee Compensation Act.

To fulfill our responsibilities under generally accepted government auditing standards and OMB Bulletin 93-06, we also must rely on the work of the Treasury Inspector General and GAO to provide audit coverage of the estimating, certifying, investing, and accounting for tax revenues. Within Treasury, there are four organizations involved in this process. The Office of Tax Analysis estimates, using economic models, the

amount of tax revenues which is the basis for the initial distribution of revenues to the various trust funds. The IRS certifies the amount of tax revenues on a quarterly basis. The Financial Management Service compares the IRS-certified revenues to the estimates, and makes the appropriate adjustment to the initial distribution. The Bureau of Public Debt performs the accounting functions, to include preparation of a monthly Income Statement and Balance Sheet.

For us to rely on the accuracy of reported revenues and investments, the entire process at all four Treasury organizations needs to be audited. The American Institute of Certified Public Accountants' Statements on Auditing Standards (SAS) provide specific guidance for adequate audit coverage. These standards include (1) SAS 57, Auditing Accounting Estimates, (2) SAS 70, Reports on the Processing of Transactions by Service Organizations, and (3) SAS 75, Engagements to Apply Agreed-Upon Procedures.

Recommendation 1

We recommend the Secretary of Transportation, in coordination with the Secretary of the Treasury, GAO, and the Deputy Controller of OMB, require audit coverage of the accounting, estimating, certifying, and investing of trust fund revenues, in accordance with audit standards related to auditing estimates, and applying specific agreed-upon auditing procedures.

Our consideration of DOT's internal control structure would not necessarily identify all matters which should be considered reportable conditions. Accordingly, the deficiencies described above do not necessarily constitute all reportable conditions, including material weaknesses, associated with DOT's internal control structure.

C. REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

OMB guidance for implementing the audit provisions of the CFO Act, as amended by the Government Management Reform Act, requires auditors to assess the entity's compliance with applicable laws and regulations. Compliance with laws and regulations is the responsibility of DOT.

To obtain reasonable assurance on whether DOT's Consolidated Financial Statements are free of material misstatements, we tested compliance with the laws and regulations directly affecting the financial statements and certain other laws and regulations designated by OMB. Our objective was not to provide an opinion on overall compliance with these provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in laws or regulations which cause us to conclude that the aggregation of the misstatements, resulting from those failures or violations, is material

to the principal statements, or the sensitivity of the matters would cause them to be perceived as significant by others.

Except as described in the following paragraphs, DOT complied, in all material respects, with the provisions of the laws and regulations directly affecting the Consolidated Financial Statements as of, and for the year ended, September 30, 1997.

The Federal Financial Management Improvement Act (FFMIA) of 1996, Title 31, U.S. Code, Section 3512, established certain financial management system requirements in statute that had already been established by policies, and established requirements for auditors to report on compliance. Under FFMIA, the OIG is required to report whether an entity's financial management systems substantially comply with:

- Federal Financial Management Systems Requirements,
- Federal Accounting Standards, and
- The U. S. Standard General Ledger at the transaction level.

To meet these requirements, we performed tests of compliance using FFMIA implementation guidance issued by OMB on September 9, 1997. The results of our tests disclosed instances where DOT's financial management systems did not substantially comply.

DOT was not in substantial compliance with FFMIA because (1) DAFIS was not the only source of financial information used for preparation of the financial statements, (2) four of the 15 prior year uncorrected internal control weaknesses (related to \$28.5 billion of assets and \$14 billion of liabilities) are considered material because they must be corrected before DOT can receive an unqualified opinion on its Consolidated Financial Statements, and (3) Year 2000 computer issues were not timely identified and assessed during FY 1997.

First, DAFIS was not the only source of financial information used to prepare DOT's Consolidated Financial Statements. OMB implementation guidance states that to be in substantial compliance with the Federal Financial Management Systems Requirements, the "agency core financial system, supported by other systems containing detail data summarized in the core financial system, is the source of information used in the preparation of the annual financial statements..." Because DAFIS did not contain the most current financial information, DOT made over 2,300 adjusting entries outside DAFIS to prepare the Consolidated Financial Statements. For example:

• DOT reported (1) Other Governmental Liabilities (Not Covered by Budgetary Resources) on the Consolidated Balance Sheet was \$2.1 billion, while DAFIS reflected only \$248.6 million; and, (2) Program and Operating Expenses on the

Consolidated Statement of Operations was \$38.8 billion, but DAFIS reported \$42.8 billion.

- Coast Guard made \$300 million in adjustments to its property and equipment accounts outside DAFIS. These adjustments were made because Coast Guard did not record all property transactions in DAFIS during the year. OMB Circular A-127 requires financial management systems to provide complete and timely information to management officials, which cannot be accomplished unless transactions are recorded when they occur.
- DOT did not record in DAFIS transactions related to \$9.8 billion of Appropriated Capital Used as reported on the Consolidated Statement of Operations. This revenue reflects the amount of expenses financed by appropriations. To record these amounts, DOT must record a yearend adjustment, outside DAFIS, equal to expenses.

The 2,300 adjustments were recorded in the Financial Statement Module (module), a tool used to generate the financial statements. These adjustments, at a minimum, should be recorded in DAFIS at the summary level. However, DOT cannot record these adjustments in DAFIS because FY 1997 records were closed within 5 days after yearend.

The accuracy and completeness of financial records is a major contributing factor causing these adjustments. However, the lack of sufficient time to review, record, and correct FY 1997 transactions in DAFIS after yearend further impacts the accuracy of recorded data. The Joint Financial Management System Requirements for Core Financial Systems states the core financial system must "Provide the capability for multiple preliminary year-end closings before final year-end closing, while maintaining the capability to post current period data." This capability would allow accounting personnel to review the financial records and correct errors before financial statements are prepared, while still recording financial information for the current year.

DAFIS produced only one preliminary trial balance and provided only 5 days to review and correct FY 1997 transactions after yearend. As a result, DOT does not have sufficient time to review and correct balances in DAFIS. The limited 5-day period also does not allow DOT to record, in its FY 1997 records, any adjustments resulting from our audit work. Our prior audits have found many module adjustments were not recorded in DAFIS. Since access to the module is limited to accounting personnel who prepare the financial statements, DOT decisionmakers do not have correct information. Federal Financial Accounting Standards required all Federal departments to have the capability in place, for FY 1998 beginning October 1, 1997, to meet the requirements of the managerial cost accounting standards. Cost accounting systems are needed to provide cost information to assist managers in evaluating program accomplishments.

DOT needs to modify DAFIS, or any replacement system, to remain open until financial statements are prepared. This would ensure that subsequent adjustments are recorded in DAFIS and reliable financial data is provided. Further, the module currently cannot be used for preparing the FY 1998 Financial Statements because it has not been modified to incorporate changes required by OMB Bulletin 97-01. Without the module, it is even more important that the yearend closing process be extended to ensure an adequate audit trail is maintained. Until the information related to the 2,300 adjustments is properly recorded in DAFIS, managers will not have current, timely, and reliable information to use in evaluating program accomplishments.

Second, as discussed in Section A of this report, four material weaknesses, previously reported in our audit report on DOT's FY 1996 Consolidated Financial Statements, continue to exist for \$28.5 billion of assets and \$14 billion of liabilities presented on the Consolidated Balance Sheet. OMB implementation guidance indicates that, to be in substantial compliance with the Federal Accounting Standards, there should be "No material weakness in internal controls that affect the agency's ability to prepare auditable financial statements..."

Three material weaknesses relate to FAA's and Coast Guard's Property, Inventory, and Capitalization of Property, which we could not substantiate through audit testing because of lack of comprehensive physical inventories, inadequate supporting documentation for property valuation, and proper recording of property transactions. The fourth material weakness impacts the Coast Guard's \$14 billion estimate of future liabilities for military retired pay and health care cost, representing 68 percent of DOT's reported liabilities. Management's estimate contained errors, so we could not substantiate the amount reported.

Finally, the OMB implementation guidance specifically requires Year 2000 computer problems to be considered when evaluating compliance with FFMIA. The guidance states that to be in substantial compliance, the agency should have completed the majority of work required for governmentwide milestones. OMB's milestone for completing assessments was June 30, 1997. As of March 30, 1998, assessments were not completed for two systems. These systems are the Bureau of Transportation Statistics' Airline Statistics System and MARAD's Ready Reserve Fleet System.

GAO and OIG have both reported concerns about DOT's Year 2000 computer problems⁶. DOT was informed that its systems inventory was not complete, assessment

2000 Issue Increases Risk Dramatically, GAO Report AIMD 98-45, January 30, 1998.

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⁶ Management Advisory on Year 2000 Computer Problems, FAA, OIG Report Number FE-1998-027, November 26, 1997; Assessing the Year 2000 Computer Problem, DOT, OIG Report Number FE-1998-053, December 18, 1997; Assessing the Year 2000 Computer Challenges, FAA, OIG Report Number FE-1998-068, February 23, 1998; and FAA Computer Systems - Limited Progress on Year

of Year 2000 problems were behind schedule based on OMB milestones, and estimates to fix Year 2000 problems were not reliable. Specific recommendations to correct Year 2000 computer problems have already been made. Notwithstanding these reports and recommendations, DOT needs to ensure Year 2000 assessments are completed expeditiously for the remaining systems.

Recommendations 2 and 3

We recommend the Department's Deputy Chief Financial Officer:

- Ensure that DAFIS, or its replacement, is the primary source for preparing the financial statements and provide sufficient time to review and correct financial records prior to preparing financial statements.
- Coordinate with the Department's Acting Chief Information Officer to ensure Year 2000 assessments are completed expeditiously for all DOT systems.

D. CONSISTENCY OF INFORMATION

DOT prepared a Consolidated Balance Sheet and Consolidated Statement of Operations for its programs and activities. DOT prepared the Consolidated Statement of Operations in accordance with the requirements of OMB Bulletin 94-01. Effective for FY 1998, Federal agencies must prepare financial statements in accordance with OMB Bulletin 97-01. This bulletin makes widespread changes to the form and content of government financial statements.

To facilitate the transition and be better prepared to implement these changes, DOT prepared a Consolidated Balance Sheet and a Consolidated Statement of Budgetary Resources (Budget Statement) according to OMB Bulletin 97-01. The Budget Statement is shown in this report as supplemental information, and is not part of the principal statements. Financial information included in the Overview and Supplemental Information was materially consistent with the Consolidated Financial Statements, except for the Budget Statement. This statement, based on budgetary accounting requirements, significantly differed from accounting policies used to prepare the Consolidated Financial Statements as described in Note 1.

DOT made appropriate adjustments to the principal Consolidated Financial Statements when we identified the discrepancies discussed in the following paragraphs.

FAA and the Federal Highway Administration had not reported all budget information in the Consolidated Budget Statement. Total budgetary resources for the Highway Trust Fund and FAA were understated by \$22 billion and \$6.4 billion, respectively. This omission occurred because Treasury prepared budgetary reports reflecting the total amount of funds available at yearend, but did not provide these reports to DOT. We, in

conjunction with FAA and Federal Highway Administration representatives, contacted Treasury and obtained the budgetary reports. The Consolidated Budget Statement was adjusted accordingly.

DOT had included only the Boating Safety portion of the Aquatic Resources Trust Fund in the Consolidated Financial Statements. DOT was not aware that, in July1997, Treasury established a requirement that DOT report all financial activity of the Aquatic Resources Trust Fund. When we notified DOT of the Treasury requirement, the following adjustments were made to the Consolidated Financial Statements:

- Increased investments and interest receivable by \$865 million on DOT's Consolidated Balance Sheet,
- Increased Tax Collected and Interest by \$372 million and Taxes Transferred by \$253 million on DOT's Consolidated Statement of Operations, and
- Increased Total budgetary resources by \$861 million on DOT's Consolidated Budget Statement.

We identified other inconsistencies that will require explanations in the notes to the financial statements next year, when the Consolidated Budget Statement will be one of the principal Financial Statements. For example, the Consolidated Budget Statement reported total DOT resources of \$82 billion, while the Consolidated Statement of Operations included total revenues of \$39.7 billion. Although these amounts should not be equal, a difference of \$42.3 billion is significant, and should be clearly explained in the Notes to the Financial Statements. This difference existed because not all budgetary authority is used during the current reporting period, and is not reported as Revenues on the Consolidated Statement of Operations until future reporting periods.

In another example, unfunded liabilities, such as Federal employee annual leave, worker's compensation cost, and Coast Guard's estimate of future military retired pay and related health care, are not shown in the Budget Statement. The Consolidated Budget Statement does not report these resources until they are provided. OMB Bulletin 97-01⁷ acknowledges that differences will exist between the Budget Statement and other statements and states:

In order to understand these differences, information is needed to reconcile financial (proprietary) net cost of operations with obligations of budget authority. This reconciliation also insures that there is a proper relationship between proprietary and budgetary accounts in the reporting entity's financial

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⁷ OMB Bulletin 97-01 replaces the Statement of Operations with the Statement of Net Cost and the Statement of Changes in Net Position. It also requires preparation of the Statement of Financing.

management system. The Statement of Financing is designed to report those differences and facilitate the reconciliation.

These problems occurred, in part, because this is the first time DOT prepared the Consolidated Budget Statement. DOT's Office of Financial Management recognized that problems would occur. To its credit, DOT's early implementation of a portion of OMB Bulletin 97-01 will be helpful in resolving problems before preparing the FY 1998 Consolidated Financial Statements.

Recommendation 4

We recommend the Department's Deputy Chief Financial Officer, based on the lessons learned, include clear instructions in the guidance for preparing FY 1998 Financial Statements to address inconsistencies of information between the principal statements.

E. PRIOR AUDIT COVERAGE

DOT prepared its first Consolidated Financial Statement for FY 1996. The OIG's audit report on DOT's FY 1996 Consolidated Financial Statements contained a disclaimer of opinion. The audit report contained 11 material internal control weaknesses, 15 reportable conditions, and included 77 recommendations to strengthen internal controls and establish the correctness of financial statement balances. Efforts are still in process to complete action on 33 recommendations (see exhibit).

This report is intended for the information of DOT management. However, this report is a matter of public record, and its distribution is not limited.

Kenneth M. Mead Inspector General

	Actions	Actions
	Completed	In Process*
Property and Equipment		
Implement a plan to reconcile and adjust accounts to subsidiary records		√
Explore alternatives if property records cannot satisfy reporting requirements		√
Develop procedures to value property when documentation is not available		√
Perform quarterly reconciliations between subsidiary records and asset accounts		✓
Operating Materials and Supplies		
Implement a plan to correct deficiencies		✓
Reconcile accounts with subsidiary records		\checkmark
Report assets at historical cost and maintain support for unit cost		\checkmark
Establish a group to estimate the cost of current assets acquired in previous years		\checkmark
Capitalization of Property and Equipment		
Implement policies in Federal accounting standards and DOT Order 2700.8A		✓
Strengthen controls associated with posting property transactions	✓	
Implement a plan to correct costs improperly expensed in prior years		✓
Invested Capital		
Provide training on recording invested capital, initial investments, and loans	✓	
Liabilities not Covered by Budgetary Resources		
Revise guidance on liabilities, future funding requirements, and contract authority	✓	
Budget and Financial Statement Reconciliation		
Provide guidance for reconciling the SF-133 to DAFIS balances	✓	
Provide a plan to complete reconciliations and correct account balances	✓	
Adjust current SF-133 reports based on reconciliation results	\checkmark	
Actuarial Model for Estimating Liabilities for Military Pay and Health Care	**	
Review all actuarial assumptions		✓
Recognize all offsets to retired benefit payments and the liability for former spouses	✓	
Change the assumptions to those used by the Department of Defense	✓	
Change the salary growth assumptions to represent the actual increases received	✓	
Ensure a valid actuarial estimate for retiree health care is completed for FY 1997		\checkmark

^{*}For the Actions In Process, DOT has initiated, but not completed, corrective actions on these recommendations.

^{**}Management Advisory on Actuarial Estimates for U.S. Coast Guard Retired Pay and Health Care Cost, OIG Report Number AD-CG-7-003, April 4, 1997.

	Actions Completed	Actions In Process*
Intradepartmental Eliminations		
Modify DAFIS to identify intradepartmental data requiring elimination at yearend		√ ***
Improve the yearend closing process for eliminations to the consolidated statement	\checkmark	
Improve management oversight and technical review for future yearend closings	\checkmark	
Accounts Payable Liability		
Provide a plan to review the Open Document File and adjust records	\checkmark	
Provide departmental policy on proper recognition of liabilities	\checkmark	
Establish procedures to monitor the validity of accounts payable		√ ***
Year end Accrued Liabilities		
Establish methods to be used for estimating yearend accruals	✓	
DAFIS System Change Requests		
Determine all financial reporting deficiencies that warrant system change requests	\checkmark	
Evaluate and prioritize the requests and implement a plan to complete them	\checkmark	
General Controls for DOT Data Centers		
Follow established computer security policies and procedures		\checkmark
Change reporting responsibilities to ensure management functions are independent		\checkmark
Remove and investigate undocumented and unauthorized entries	\checkmark	
Prohibit multiple logons in the same region		\checkmark
Remove global entry that provides read access to FAA's security databases	\checkmark	
Identify all FAA operating system utilities and implement protections over them	\checkmark	
Implement a security monitoring program for FAA's operating system utilities	\checkmark	
Evaluate USCG's user access privileges and develop written approvals	\checkmark	
Identify and implement alternate commercial software products at USCG	\checkmark	
Implement password controls at USCG	\checkmark	
Develop procedures for USCG's operating system changes	✓	
Penetration Review of Integrated Telecommunications Network Environment	t	
Implement the recommendations contained in the contractor's April 1997 report		\checkmark

^{***}DOT has deferred corrective actions related to these recommendations until a replacement system is in place.

	Actions	Actions
	Completed	In Process*
Applications Computer Security		
Prepare a computer security plan for the Consolidated Uniform Payroll System	\checkmark	
Certify and accredit the payroll system and re-certify and re-accredit DAFIS	\checkmark	
Implement a corrective action computer security plan for USCG and MARAD		✓
Verify that MARAD computer users are periodically trained in computer security	✓	
Increase USCG's password controls for the Retired Pay and Personnel System		✓
DAFIS Batch Controls		
Authorize and implement DAFIS system changes to:		
Mask batch control totals from data entry personnel	,	√ ***
Reduce the field size or require a confirmation when limits are exceeded	✓	,
Modify controls over potential duplicate payments		✓
Establish controls to prevent the recording of excesses in budgetary accounts		√ ***
Establish a pre-month-end processing error or suspense file		✓
Establish controls to capture agency code discrepancies	\checkmark	
Establish controls to prevent the batch creator from certifying the batch		\checkmark
Issue guidance on entering charges for receivables	✓	
Ensure controls over charges are functional in the receivables replacement module		✓
Periodically review existing accounts receivable files and initiate corrective action	✓	
Payroll Systems Change Controls		
Issue a formal software maintenance policy for making payroll system changes	✓	
Implement a plan to establish target dates for USCG's System Change Proposals	\checkmark	
Separation of Duties Over Pay Systems		
Reemphasize that approval of own attendance requires prior written authority	✓	
Revise DOT Order 2730.10 to incorporate GAO Title 6 requirements	✓	
Provide a plan to properly separate duties at USCG personnel reporting units	\checkmark	
Retired and Military Pay Edits		
Implement a plan to ensure USCG's timely processing of monthly Death Files	✓	
Provide a plan to automate USCG's edits for unusual pay status	\checkmark	

	Actions Completed	Actions In Process*
Capital Leases		
Revise DOT Order 2700.8A to incorporate procedures for capital leases		\checkmark
Adjust the financial records for any additional leases that should be capitalized		✓
Accounting and Reporting of Department of Labor Chargeback Costs		
Issue procedures to ensure employee compensation costs are properly recorded		✓
Post Employment Benefits		
Provide guidance for reporting military post employment benefit costs	\checkmark	
Federal Workforce Restructuring Act of 1994		
Issue detailed instructions on reporting Federal Workforce Restructuring Act costs	\checkmark	
Contingent Liabilities for Legal Claims		
Work with the Treasury to identify Judgment Fund payments		\checkmark
Issue guidance on contingencies and costs paid by the Treasury Judgment Fund		✓
Canceled Appropriations		
Reemphasize the instructions for reclassifying balances in expired appropriations Develop a report listing the deletions from canceled appropriations	√	
General Ledger Adjustments		
Strengthen controls over the use of non-routine general ledger adjustments	\checkmark	
Implement a plan to comply with requirements for use of standardized transactions and transaction control		√ ***
Performance Measures	,	
Provide guidelines to ensure reporting is consistent with requirements	\checkmark	
Ensure that the reported measures provide sufficient information to measure results		✓
RECOMMENDATIONS COMPLETED	44	57%
RECOMMENDATIONS IN PROCESS	33	43%
TOTAL RECOMMENDATIONS	77	100%

SECTION V GLOSSARY OF

ACRONYMS

GLOSSARY OF ACRONYMS

AC&I Acquisition Construction and Improvements
ADA American with Disabilities Act of 1990

AIP Airport Improvement Program
AMASS Airport Movement Safety System

APTS/ITS Advance Public Transportation System/Intelligent

Transportation System

ATC Air Traffic Control

AVL Automated Vehicle Locator

BRR Bridge Replacement and Rehabilitation BTS Bureau of Transportation Statistics

CAFE Corporate Average Fuel Economy

CCF Capital Construction Fund CFO Chief Financial Officer

CMAQ Congestion Mitigation and Air Quality

CSI Customer Service Index

CSRS Civil Service Retirement System

DEA Drug Enforcement Agency
DOD Department of Defense
DOL Department of Labor

DOT Department of Transportation

EL Enabling Legislation

FAA Federal Aviation Administration

FAH Federal-Aid Highway F&E Facilities and Equipment

FECA Federal Employees Compensation Act FERS Federal Employees Retirement System

FFB Federal Financing Bank

FFGA Full Funding Grant Agreements

FFMA Federal Financial Management Act of 1994

FHWA Federal Highway Administration FLHP Federal Lands Highway Program FRA Federal Railroad Administration FTA Federal Transit Administration

FY Fiscal Year

F&E Facilities and Equipment

GLOSSARY OF ACRONYMS

GMRA Government Management Reform Act of 1994
GPRA Government Performance and Results Act of 1994

GPS Global Positioning System

GF General Fund

GIS Geographical Information System

HAZMAT Hazardous Material HTF Highway Trust Fund

IC Interstate Construction

ICC Interstate Commerce Commission

ICCTA Interstate Commerce Commission Termination Act

ITOP Information Technology Omnibus Program

ISTEA Intermodal Surface Transportation Efficiency Act of 1991

ITS Intelligent Transportation System
IVHS Intelligent Vehicle/Highway System

IG Inspector General

LNG Liquefied National Gas

MARAD Maritime Administration

MARTA Metropolitan Area Rapid Transit Authority

MSP Maritime Security Program

MCSAP Motor Carrier Safety Assistance Program MMAC Mike Monroney Aeronautical Center

MPE Motor Power and Equipment

NEC Northeast Corridor

NECIP Northeast Corridor Improvement Program

NDR National Driver Registration NDRF National Defense Reserve Fleet NHS National Highway System

NHTSA National Highway Traffic Safety Administration

NPR National Performance Review NTD National Transit Database

OA Operating Administration
OCC Office of Chief Counsel
ODS Operating Differential Subsidy
OFD Ocean Freight Differential
OIG Office of Inspector General

OMB Office of Management and Budget

OIG Office of Inspector General
OPA Oil Pollution Act of 1990
OPM Office of Personnel Management

OPS Office of Pipeline Safety
OSLTF Oil Spill Liability Trust Fund

OST Office of the Secretary

GLOSSARY OF ACRONYMS

PCIE President's Council on Integrity and Efficiency

PL Public Law

RBS Recreational Boating Safety R&D Research and Development

R,E &D Research, Engineering and Development

RRF Ready Reserve Force

RSPA Research and Special Programs Administration

R&T Research and Technology

SIB State Infrastructure Banks

SLSDC Saint Lawrence Seaway Development

Corportation

STB Surface Transportation Board STP Surface Transportation Program

TASC Transportation Administrative Service Center

TEUs Twenty-foot Equivalent Units TSI Transportation Safety Institute

US United States
USC United States Code
USCG United States Coast Guard

USMMA United States Merchant Marine Academy

VISA Voluntary Intermodal Sealift Agreement
VNTSC Volpe National Transportation Systems Center
VSIP Voluntary Separation Incentive Program

WCF Working Capital Fund

WJHTC William J. Hughes Technical Center

WRIF War Risk Insurance Fund